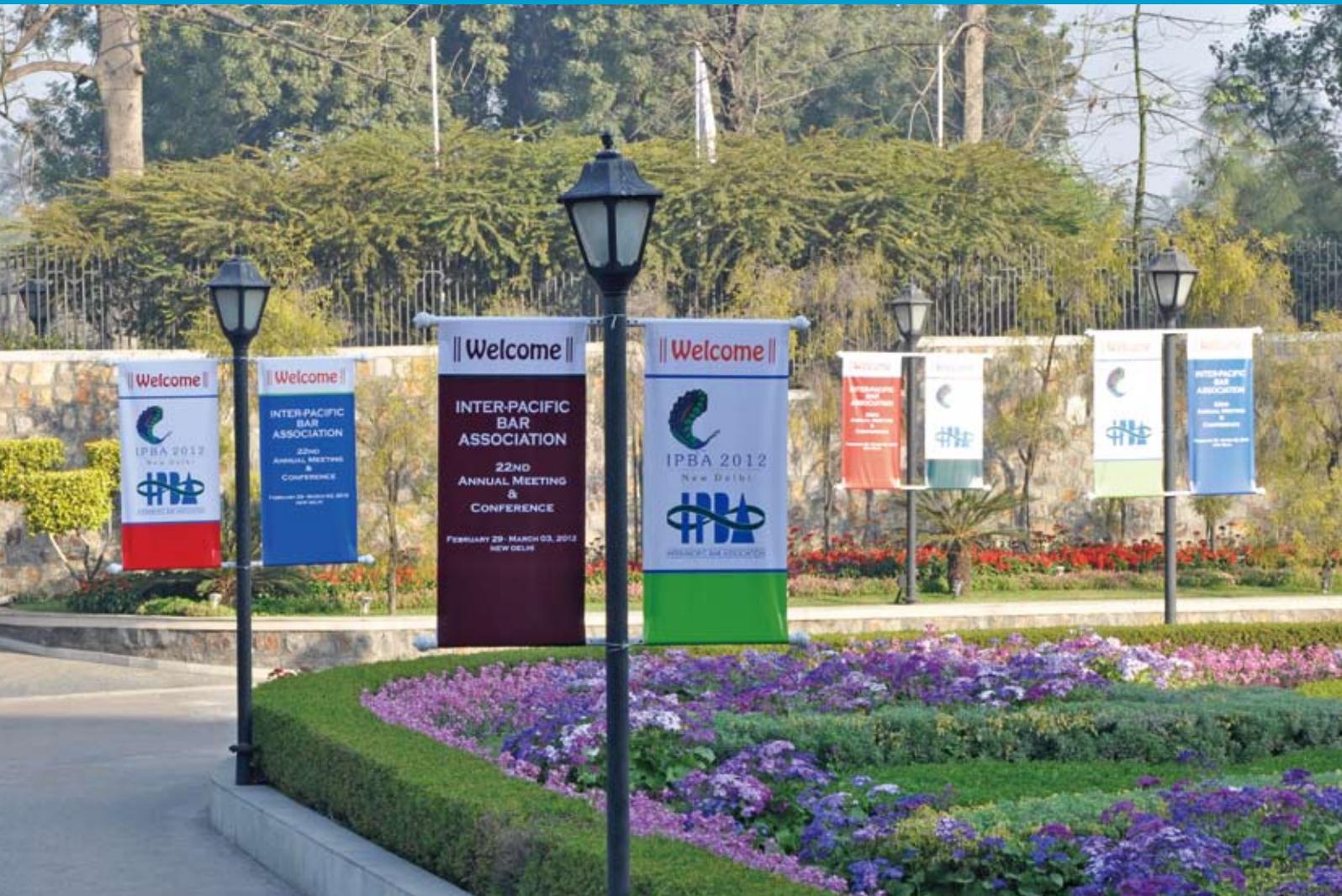


# IPBA JOURNAL

IPBA NEWS AND LEGAL UPDATE



INTER-PACIFIC BAR ASSOCIATION

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# The President's Message



Dear Colleagues,

My predecessors have set very high standards of the IPBA leadership and it will be my endeavour to follow in their footsteps to the best of my ability. Mr Shiro Kuniya's term reflected the determination of top IPBA leadership when he had to face the devastating earthquake

and tsunami with grit, calm and composure. Ms Suet Fern Lee was able to host the largest IPBA Conference held in Singapore.

When the IPBA 'family' met again in New Delhi this year the global economy has yet to recover from the economic slowdown and despite that, nearly 900 delegates turned up for the Annual Meeting in New Delhi which was held from 29 February to 3 March 2012.

Considering that the registration fee was kept lower than what was fixed for Kyoto and Singapore, the financial results have been very significant and one can say with daring certainty that this was one of the most successful IPBA conferences ever to be held. This is particularly so keeping in view of the fact that no effort or expense was spared to make the event one of the most enjoyable, entertaining and relaxing get-togethers without in any way compromising the intellectual inputs during the Committee Sessions, the

Showcase Session, the Plenary Session and the Inaugural Session.

The Host Committee for the New Delhi Conference takes pride in the fact that for the first time the top global Bar leaders namely, Mr Akira Kawamura, President of the International Bar Association; Mr Dris Chatter, President of the UIA; Ms Tanja Jussila, President of the AIJA; Mr William Robinson, President of the American Bar Association; Mr Michael Reynold, Vice President of the IBA; and Mr Shiro Kuniya, Immediate Past President of the IPBA, shared the head table to speak on the crucial and vital topic of 'Life, Liberty and The Law' in the Plenary Session.

My vision is to unite the legal fraternity all over the world and to evolve consensus to protect life and liberty of people of the world. I would strive for greater economic cooperation among the countries and to ensure proper and prompt legal support to achieve the same.

It would also be my aim to have more involvement of European countries, North and Latin American countries, Africa and the Middle East in the IPBA.

The IPBA's membership has to grow to ensure its place as one of the most representative global organisation of lawyers. Let the 'family' grow.

Best wishes,

*Lalit Bhasin*  
*President*

# The Secretary-General's Message



Dear IPBA Members,

After a year of political and economic turmoil in 2011 which was further beset by several major natural disasters, we are looking forward to a benign and less dramatic year. But elections in major

countries are certain to affect the political outlook of the world, and as the world tries to move ahead of the economic perils of the various monetary crises in Europe, Asia and elsewhere, there is bound to be more drama in 2012.

In times of economic turmoil and uncertainty, businesses, including law firms, tend to tighten their belts and cut back on what would be considered 'unnecessary' costs. Certain to be included in such cutbacks are funding for attendance at international conferences such as the 2012 IPBA Annual Meeting and Conference in New Delhi, India held from 29 February to 3 March 2012. As I write this, the conference has yet to happen, but as you read this, the conference would have already concluded. So I may have more to say on the conference in hindsight later. Despite the economic downturn of the world economy, as of this writing, the Host Committee for the Delhi Conference had announced that 775 individuals have registered for the conference. (The Host Committee has since reported that there were almost 900 delegates in attendance.)

The annual conference is the highlight event for the IPBA each year, and much planning goes into the organization and hosting of an annual conference. Each Host Committee retains a conference organizer to assist in the planning and preparation of the conference, but each Host Committee member shoulders a vast workload during the two to three years prior to the conference as the annual conference is being planned. Various officers of the IPBA, most notably the Program Coordinator and Deputy Program Coordinator, get involved in the details of the programs to be presented at the conference. The Secretariat provides it able assistance. Many council members chip in long hours on the phone and on emails.

Knowing the work that it entails, it amazes me that each year there are numerous jurisdictions that offer proposals to host the annual conference. To date, the next annual conference is scheduled for Seoul, South Korea in April 2013. That will be followed by one in Vancouver, Canada in May 2014. The annual conference for April 2015 will be decided at the Mid-Year Meeting to be held later this year in New Zealand. The Nominating Committee of the IPBA will be reviewing proposals in the next several weeks and months to offer its nomination to the IPBA Council in New Zealand. Several jurisdictions are expected to submit proposals for the annual conference, and the nomination for the 2015 annual conference should be a heated one.

During my many years of involvement with the IPBA, several of you have asked me when the annual conference will be held in Hawaii. Over the years, the Hawaii members of the IPBA have often discussed this issue and have felt that the infrastructure of large law firms in Hawaii is inadequate to support a major undertaking like an IPBA annual conference. Citing various other reasons, we have managed to hold off serious calls for an annual conference to be held in Hawaii. Most recently, at the Kyoto Annual Meeting and Conference in 2011, our fearless then-President asked the Hawaii members to consider submitting a proposal for an annual conference in Hawaii. Since one of the members who would be on the Host Committee (yours truly) was to be tied up for the next two years in a key position with the IPBA (Secretary-General), the Hawaii members again managed a reprieve.

So Hawaii will not be the venue for the annual conference in 2015 either, but if you have any thoughts on which jurisdiction you would like to see host an IPBA annual conference in the future, please feel free to contact me or any of the officers of the IPBA. An annual conference may be coming to your (my?) jurisdiction soon.

Aloha,

*Alan S Fujimoto*  
*Secretary-General*

## The IPBA 22nd Annual Meeting and Conference, New Delhi, India, 29 February – 3 March 2012



Mr Lalit Bhasin, Incoming IPBA President, addressing the audience before the Plenary Session.



Enjoying the Inaugural Ceremony from the front row are distinguished guests and leaders of IPBA.



The Plenary Session panel discussing the prevailing situation of 'Life, Liberty & Law' in their respective jurisdictions.



Ms Varya Simpson, Chair of the Scholarship Committee (centre), and the IPBA Secretariat welcomed eight Scholars to the conference.



Mr Yap Wai Ming, Mr Allan Leung, and Mr Sumeet Kachwaha enjoying the festivities at the Welcome Reception.



Delegates receiving a warm welcome at the Welcome Reception.



Membership Committee Chair Suresh Divyanathan making a point to the delegates at the Reception for New IPBA Members and IPBA Scholars.



Mr Hisashi Hara addressing the participants of 'Japan Night' while Mr Shiro Kuniya looks on.



The delegates enjoying the Gala Dinner on the lawns of Hotel Ashok.



Mr Richard Goldstein and Mr Mark Shklov getting into the spirit of the conference.



A cultural extravaganza was held at The Kingdom of Dreams.



The Internet Lounge was a convenient stop between sessions.



Collaboration between APEC and the IPBA is strong, with a joint session featuring prominent speakers held at every conference since Kyoto.



Committee Sessions were well attended, such as this session on Cultural Exchange organised by the Women Business Lawyers and Corporate Counsel committees.



IPBA Officers leading the well-attended Annual General Meeting.



A trip to India would not be complete without yoga!

See more photos on the IPBA website at: <http://ipba.org>

## Publications Committee Guidelines for Publication of Articles in the IPBA Journal

Please note that the IPBA Publication Committee has moved away from a theme-based publication. Hence, for the next issues, we are pleased to accept articles on interesting legal topics and new legal developments that are happening in your jurisdiction. Please send your article by *May 14, 2012* to both **Caroline Berube** at [cberube@hjmasialaw.com](mailto:cberube@hjmasialaw.com) and **Maxine Chiang** at [maxinechiang@leetsai.com](mailto:maxinechiang@leetsai.com). We would be grateful if you could also send a lead paragraph of approximately 50 or 60 words, giving a brief introduction to, or overview of the article's main theme and a photo with the following specifications (File Format: JPG, Resolution: 300dpi and Dimensions: 4cm(w) x 5cm(h)) together with your article).

The requirements for publication of an article in the *IPBA Journal* are as follows:

1. The article has not been previously published in any journal or publication;
2. The article is of good quality both in terms of technical input and topical interest for IPBA members;
3. The article is not written to publicise the expertise, specialization, or network offices of the writer or the firm at which the writer is based;
4. The article is concise (2500 to 3000 words) and, in any event, does not exceed 3000 words; and
5. The article is written by an IPBA member.

### IPBA Event Calendar

Event	Location	Date
<b>IPBA Annual Meeting and Conference</b>		
23rd Annual Meeting and Conference	Seoul, Korea	April 17–21, 2013
24th Annual Meeting and Conference	Vancouver, Canada	Spring 2014
<b>IPBA Mid-Year Council Meeting</b>		
2012 Mid-Year Council Meeting and Seminar	Auckland, New Zealand	November 2–5, 2012
<b>Supporting Events</b>		
ABA Section of International Law's Spring Meeting	New York, New York	April 17–21, 2012
China Entrepreneur's 2012 Wall Street China Forum	New York, New York	May 15, 2012
InnoXcell's 2nd Annual AIPEC Summit	Beijing, China	May 30–June 2, 2012
InnoXcell's 3–Discovery Exchange 2012	Hong Kong	June 6–7, 2012

**More details can be found on our website:**  
<http://www.ipba.org>, or contact the IPBA Secretariat at [ipba@tga.co.jp](mailto:ipba@tga.co.jp).

#### Correction

The author of the article beginning on p 8 of the *IPBA Journal* December 2011 issue, 'The Honourable Michael Hwang, Chief Justice of the DIFC Courts', would like to clarify that the co-interviewer was Mr Alec Emmerson of Clyde & Co, and not Mr Dhinesh Bhaskaran of Shearn Delamore & Co. We would hereby like to apologize to Mr Alec Emmerson for this mistake.

# IPBA Moderators' Highlights from the Conference

After the great success of the recent IPBA annual conference, the Publications Committee is thrilled to introduce the 'Moderators' Section' which summarizes each session held during the annual IPBA conference, providing those who were unable to attend with an insight into what was discussed. Note that this will be a regular section after each annual conference. The next one will follow after the annual IPBA conference in Seoul, Korea in 2013.

## Relevance of APEC in the Asian Pacific Region and Beyond

*Shiro Kuniya, Oh-Ebashi LPC & Partners, Japan*

Speakers: Suet Fern Lee (Stamford Law Corporation, Singapore), Kie Matsushima (PwC, Japanese Business Practice, Russia), Toru Morikawa (Ministry of Foreign Affairs of Japan, Japan), Maxim Alekseyev (Alrud Law Firm, Russia) and Shigehiko Ishimoto (Mori Hamada & Matsumoto, Japan).

APEC activities in the US year (2011) and issues in the Russia year (2012) were explained by the head of the APEC division of the Ministry of Foreign Affairs of Japan, Toru Morikawa. IPBA Past President, Suet Fern Lee focused on the function of the APEC secretariat in Singapore and more interactions to be achieved among the Member Economies. As the only third party organization which has a friendship agreement with APEC, the IPBA is expected to work closely with APEC with the expertise of its members.

Two speakers from Moscow, Maxim Alekseyev and Kie Matsushima, pointed out current laws and regulations, practical improvements and difficulties in Russia with their experiences. As Russia becomes a member of the WTO, comparative analyses between Russia and China were made by Shigehiko Ishimoto by referring to various issues based upon his experience in Chinese practice. Some members of the IPBA are expected to go to Russia as panelists of the relevant sessions of APEC this year.

## Regulatory Challenges Faced by Global Financial Institutions

*Jan Peeters, Stibbe, Belgium*

Speakers: Petrus Huang (Drew & Napier LLC, Singapore), Madhukar R Umarji (Indian Banks Association, India), Michel Vermaerke (Febelfin, Belgium) and Mee-Hyon Lee (Lee & Ko, Korea).

The panel addressed some of the regulatory issues faced by banks which are active on a cross border basis.

Michel Vermaerke kicked off the panel discussion by giving his views on some of the causes for the Global Financial Crisis (GFC). He addressed the issue of the macro-economic imbalances paying particular attention to the situation in Europe, the financial system's shortcomings and other drivers for the crisis and finished off with some views on the challenges ahead. Madhukar R Umarji responded by addressing how the GFC had affected the Indian banking market. Mee-Hyon Lee touched upon the issues faced by the Korean banking market whereas Petrus Huang reported on the situation in Singapore.

Following a brief introduction on the changes to be expected from the Basel III measures and a time line to that end, the panel then addressed how Basel II had been implemented in the three Asian countries represented on the panel and what the expectations were with respect to the implementation of Basel III.

The cross border supervision of banks was the

next topic addressed by the panel. It was ranked high on the list of 'hot' banking regulatory topics in the last few years following the BCCI case in 1991. The panel briefly addressed how cross border supervision is organized in the Asia-Pacific region.

The Q&A resulted in a lively debate on how competition laws can be used to enforce regulatory compliance by banks (especially with respect to interest rates being applied to deposits) and whether Asian countries would be willing to cooperate with the US FATCA rules.

### **The Rising Significance of Cross Border Employment: Issues, Difficulties & Solutions**

*Sandra McCandless, SNR Denton, USA*

Speakers: Emerico O De Guzman (ACCRALAW, Philippines), Jacqueline Bart (Bart & Associates, Canada), Roland Falder (Bird & Bird, Germany), Aki Tanaka (Kitahama Partners, Japan), Poorvi Chothani (Lawquest, India) and Emily Duncan (Gall, Hong Kong, China).

The panelists discussed the application of employment and immigration law in their jurisdictions with a focus on cross border employment, using case studies as examples. The speakers all advised of the need to consult a legal specialist about local law and practice when multinational companies hire, contract with, or terminate employees across the globe.

### **Tax and Regulatory – Effective Cross Border Finance**

*Pieter de Ridder, Loyens & Loeff, Singapore*

Speakers: Michael Butler (Finlaysons, Australia), Eric Roose (Morrison & Foerster, Japan), Aseem Chawla (Amarchand & Mangaldas & Suresh A Shroff & Co, India), Terence Conrad H Bello (Baniqued & Baniqued, Philippines), Natasha Xie (Jun He Law Offices, China), Yap Wai Ming (Stamford Law Corporation, Singapore), Yong Jae Chang (Lee & Ko, Korea) and Ada Ko (Garvey Schubert and Barer, USA).

Pieter de Ridder moderated the working session which featured Michael Butler who discussed Australian anti-avoidance tax cases. The next speaker was Natasha Xie who gave an interesting talk about China's deregulations with respect to the use of the RMB for cross border financing purposes in order to make the currency an alternative to the USD.

Aseem Chawla talked about a few recent Indian tax cases concerning cross border financing

structures where authorities have attempted to re-characterize transactions for tax purposes.

Eric Roose discussed the recently introduced Japanese participation exemption tax rules, making it easier for Japanese groups to defer Japanese taxation by structuring their overseas investments through a qualifying regional headquarter company in places such as Singapore.

Yong Jae Chang explained the current status of Korea's exchange controls restrictions with respect to the use of foreign currency in the country and the possibility to obtain withholding tax exemption on a qualifying foreign denominated currency bond.

Terence Conrad Bello discussed a number of recent tax cases where the tax authorities successfully alleged that stamp duty was due on certain debt instruments, but were unsuccessful in imputing interest on interest-free loans.

Yap Wai Ming explained how Singapore stays relevant as a regional finance centre in Asia for groups whose activities are generally all happening outside of Singapore, especially for groups in Indonesia, India and China.

The last speaker was Ada Ko who talked about the FATCA rules, which impose far-reaching reporting and taxation obligations on overseas-based financial institutions and non-financial institutions who would allegedly earn US source income for their customers. These rules, which will come into force in 2013, show an attempt by the US government to impose extra-territorial taxing rules on overseas jurisdictions.

### **Doing business between Europe and India**

*Anne Durez, Total SA, France*

Speakers: Ambassador Joao Cravinho, Jean-Claude Beaujour (Smith Violet, France), Girish Gokhale (JSW Group, India), Rajinder Sharma (DuPont India Pvt Ltd, India), Bharat Vasani (Tata Group, India), Vijaya Sampath (Bharti Airtel, India) and Gautam Bhattacharyya (Reed Smith, UK).

This session, organized by the Corporate Counsel Committee, gathered general counsels of major Indian companies together with European lawyers. They explained, through a comparative legal and business approach, the high potential for Indian and European companies to cooperate.

The climax of the session was the presence of Ambassador Joao Cravinho from the Delegation of the European Union to India, who reminded delegates that the EU, with 500 million citizens and four of the world's seven largest economies, is India's largest trading partner and the largest source of foreign direct investments (FDI). Ambassador Cravinho also outlined that the export of Indian

services and digital online services are growing. During the EU-India summit held in New Delhi in February 2012, EU and Indian leaders said they took a 'significant step forward' to speed up negotiations to reach a free-trade pact by the end of the year, which would double trade between the 27-country bloc and the Asian partner.

Indian and European lawyers and corporate counsels must cooperate in order to secure the growing business transactions between these two majors regions of the world.

### Free Trade Agreements in Asia – What Works and What Does Not?

*Edmund Sim, Appleton Luff, Singapore*

Speakers: Patrick Dahm (Rodyk & Davidson LLP, Singapore), Daniel Lim (Stamford Law Corporation, Singapore), Caroline Berube (HJM Asia Law, China), Carlos Perez de la Sierra (Calderón De la Sierra, Mexico), Rocky Reyes (SyCip Salazar Hernandez & Gatmaitan, Philippines), Rahul Goel (Seth Dua & Associates, India), Turena Ramirez (Sánchez Devanny, Mexico), Raj Bhala (University of Kansas Law School, USA). Moderated by Jeff Snyder (Crowell & Moring LLP, USA), Jaime Cheng (Lee, Tsai & Partners Attorneys-at-Law, Taiwan, China) and Edmund Sim (Appleton Luff, Singapore).

The panel noted that the term 'free trade agreements' (FTAs) are a misnomer, as they cover issues other than just trade, such as investment and intellectual property, and in some ways do not exactly provide for a 'free' flow of cross border transactions. Nor are FTAs being implemented immediately, meaning that promised market access rights do not materialize so soon. Inconsistent or even incompatible rules of origin, investment rights and intellectual property approaches also make it difficult for lawyers and their clients to deal with the 'noodle bowl' of FTAs. FTAs may not cover labour, environment and human rights issues well, nor do they provide adequate support for R&D or SMEs. Nevertheless, FTAs are now a permanent part of the lawyer's remit with issues that can come up anywhere.

### Investments in Dynamic Economies in Challenging Times

*Jose Cochingyan III, Cochingyan & Peralta, Philippines*

Case Studies Presenters: Rohit Kumar (United Phosphorus Ltd, India), Eriko Hayashi (Oh-Ebashi LPC & Partners, Japan), Björn Etgen (Beiten Burkhardt, China), Rafael Vergara (Carey

Y Cia, Chile) and Tran Thai Binh (LCT Lawyers, Vietnam).

Jurisdiction Panelists: Shin Jae Kim (TozziniFreire Advogados, Brazil), Li Haibo (Winners Law Firm, China), Frédéric Ruppert (De Gaulle Fleurance & Associates, France), Michael Burian (Gleiss Lutz, Germany), Philip Koh (Mah-Kamariyah & Philip Koh, Malaysia), Fernando Hurtado de Mendoza (Rodrigo, Elias & Medrano Abogados, Peru) and Jaipat Jain (Lazare Potter & Giacovas LLP, USA).

*Lawyers' Guidelines of Dos and Don'ts on Cross Border Investments – A Workshop by the Cross Border Investment Committee at the New Delhi Conference*

The Cross Border Investments Committee held a productive workshop at the New Delhi IPBA Conference. The committee's session investigated uncertainty in regulations and other challenging circumstances in cross border investments in the current charged economic atmosphere. The session sought to bridge the gap between reality and rhetoric. As a springboard for discussion, the session relied on five comparative case studies of cross border investments in specific industries in certain jurisdictions. Issues, approach and solutions from various jurisdictions were discussed in the context of the case studies presented. The objective of this workshop was to conclude with dos and don'ts for lawyers advising on cross border investment. The varied and extensive experiences and knowledge of the highly qualified panelists were thus distilled into a useful Lawyers' Guidelines of Dos and Don'ts on Cross Border Investments. A full report will be available in the *IPBA Journal* in June 2012.

### Islamic Financial International Trade: Challenges and Issues

*Cliff Sosnow, Blakes International Trade & Investment Group, Canada*

Speakers: Professor Raj Bhala (University of Kansas School of Law, USA), Dr Walid Hegazy (Hegazy & Associates, Egypt), Sandip Beri (Citibank, India), Carla Junqueira (Barretto Ferreira Kujawski e Brancher (BKBG), Brazil), Caroline Berube (HJM Asia Law, China), Lawrence Kogan (The Kogan Law Group, PC, USA) and Jeff Snyder (Crowell & Moring LLP, USA).

The session was designed to show the richness of analysis and application arising from the intersection of Islamic finance and international trade law. Initially, the session considered basic

Islamic rules affecting finance: *gharar* (excessive uncertainty), *riba* (interest, or usury), *hiyal* (legal devices/fictions), *mudarabah* (sleeping partnerships), and *murahbaha* (cost plus pricing). There followed a discussion on the challenges facing Islamic finance as an industry including from the perspective of a banking lawyer. In recent years, Islamic scholars and economists have raised concerns that Islamic finance has not lived up to its promise to offer more ethical and socially-responsible financial solutions and Islamic financial institutions, and their regulators and Shariah boards are required to work together to bring the practice of Islamic finance closer to its theoretical principles and values. From this foundational analysis, the session considered whether Islamic countries approach Free Trade Agreements (FTAs) differently than those FTAs signed with other partners and conversely, whether China, as a key Asian trading partner, has approached these FTAs differently than to those FTAs signed with non-Islamic partners. From the general to the specific, the session noted that since the 2008 global financial crisis, technology inventors, entrepreneurs and investors, have faced challenges securing institutional risk-based capital from conventional sources and raised the argument that Shariah-compliant financing offered by Islamic Financial Institutions may, in certain instances, present such parties with a viable funding alternative. Finally, the session considered issues arising from the expansion of international sanctions in recent years including with respect to Iran that entailed a review of cases involving the application of sanctions to Islamic finance transactions.

### Seven Steps to a Successful Business Venture in India

*Ravi Nath, Rajinder Narain & Co, India*

Speakers: Lalit Bhasin (Bhasin & Co, India), AK Ganguli (Supreme Court of India, India), Antonio Helio Waszyk (Nestle India, India), Balbir Singh (DSK Legal, India), H Jayesh (Juris Corp, India), Hemant Sahai (HSA Advocates, India), Manishi Pathak (Kochhar & Co, India), Manjula Chawla (Phoenix Legal, India), Nishith Desai (Nishith Desai Associates, India), Raman Roy (Quattro, India), Sajai Singh (J Sagar Associates, India), Suman Khaitan (Khaitan & Partners, India), Sunand Sharma (Alstom India, India) and Zia Mody (AZB & Partners, India).

This session was one of the most interesting sessions at the recently concluded IPBA 2012 New Delhi Conference. Indian lawyers experienced

in advising on legal aspects of doing business in India introduced the audience to various laws and regulations relevant for establishing a successful venture in India and offered practical tips. Emphasis was on understanding the Indian regulatory mechanism, finding the right partner and putting into place suitable contractual documentation that would stand the test of time. Tax implications, exit strategies and the Indian judicial system were extensively discussed and debated.

The panel included CEOs of Nestle India, Alstom India, and Quattro, who shared their experiences and offered advice on how to succeed. A lively Q&A ensued. Lawyers from Brazil and Dubai made interjections. Ronaldo Veirano, a well known Brazilian lawyer, said that after all has been said about India, both the positives and the negatives, applied to Brazil as well and he was amazed by the similarities.

Several delegates expressed the thought that similar sessions should be organized at future IPBA conferences and be devoted to the respective host countries.

The underlying message from the session was that although the Indian market is a challenging one, it holds the promise of great rewards for diligent and persevering investors.

### Resolution of Trade Secret Disputes

*Dr Bernhard Meyer, MME Partners, Switzerland*

Speakers: Rory Radding (Edwards Wildman Palmer LLP, USA), Brad Alexander (HJM Asia Law & Co LLC, China), Maxine Chiang (Lee, Tsai & Partners, Taiwan, China), Justus Jansen (Brödermann & Jahn Rechtsanwaltsoges. MbH, Germany) and Girija Varma (Girija Law Partners, India).

The Dispute Resolution Committee and Intellectual Property Committee held this joint panel session. The session was structured as a discussion of different approaches to trade secret disputes in various jurisdictions using a hypothetical case scenario to prompt the discussion. Rory Radding began the session by introducing the peculiarities of trade secret disputes, and the panelists and attendees discussed the various legal tools, both civil and criminal, that could be applied to trade secret disputes. Dr Bernhard Meyer then presented the hypothetical case scenario, which involved a 50-50 joint venture between two partners to develop a medical drug that was manufactured by one of the partners which consequently held all of the trade secrets for the project. The manufacturing partner was subsequently sold by its owner to a direct competitor of the other partner, and soon after the sale, another drug with the same compound was

produced and sold by a separate entity owned by the direct competitor. The first joint venture partner was furious and alleged misappropriation of trade secrets and know how.

In turn, each of the panelists introduced the specific issues facing a particular party and identified the options that may be available to that party, as well as steps that such party could, or should, have taken to avoid the issues it now faced. Many comments and suggestions came also from the audience.

The discussion first focused on alternative options to cancel the joint venture contract in the absence of a change of control clause, or claims that could be made in an arbitration. Other issues were also addressed, including whether the non-manufacturing partner had any right to be informed of, and/or possibly object to, the transfer, and whether the manufacturing partner should take any steps to shield itself from claims from the other partner. The panel also discussed steps that the management or the board of the manufacturing partner should consider, including resignation – which led to a discussion regarding non-compete clauses in various jurisdictions. Lastly, the panelists discussed issues for the owner of both the transferred partner and the company with the competing drug, and what risks the owner, or either of the two companies, may face.

Although the panel was held on Saturday morning at 9.00am, we had a very lively discussion with great participation from the audience, once they arrived!

### **Legal Trends, Thoughts and Times – Recent Issues with Cross Border Franchising**

*Jan Kooi, International Counsel, Netherlands*

Speakers: Aditya Tiwari (Prudentius Legal, India), Jim FitzSimons (Clayton Utz, Australia), Julie Cheng (Jun He Law Offices, China), John Anthony Eastwood (Eiger Law, Taiwan, China), Jose Cochingyan (Cochingyan & Peralta Law Offices, Philippines) and Jae Shim (Kim & Chang, Korea).

Though many people who attended the conference had either left or gone to the Taj Mahal, we had a pretty good attendance with about 60 attendees. The various speakers gave excellent and often funny presentations on the rules regulating franchise operations in their country. The interesting thing about franchising is that it really touches on all aspects of law. Tax aspects play an important part, but also IP protection, real estate, termination of contracts, liability, leasing and, last but not least, banking and exchange control provisions. The case discussed was based

on Subway, the largest fast-food franchisor in the world measured by outlets. It became very clear that countries like Australia, Korea and Taiwan, have regulated the franchising business very well and that it is comparatively simple to operate a franchise and use, for example, direct debit for collecting the franchise fees. The Philippines and the PRC are still developing their legal system in this respect and are not easy countries to operate in yet. While India poses no serious problems, it has a slightly less developed legal system in this field than Australia. It was a lively session, well attended and with numerous questions at the end.

### **Legal Practice Trends in the World**

*Mark Stinson, Fasken Martineau DuMoulin LLP, Canada*

Speakers: Suchorita Mookerjee (Bodhi Global Services, India), Bithika Anand (Legal League Consulting, India) and Rico V Domingo (Law Firm of RV Domingo & Associates, Philippines)

The Legal Practice Committee's working session focused on the rapidly-growing trend of legal process outsourcing (LPO). The panel engaged participants in an interactive session discussing the practicalities and current issues relating to LPO. The panelists discussed the types of LPO work typically being conducted, including document review and supporting e-discovery, IP services, legal research, transaction support and corporate secretarial work. Other discussion topics included identifying the countries where LPO work is and is expected to be originating, the types of agreements and compensation typical in the industry and the steps that LPO providers are taking to ensure high quality and confidentiality of the work product. Finally, the panelists and attendees discussed the potential threats to the continued growth of LPO.

### **The First IPBA Cultural Exchange: What Makes our Ways of Doing Business Unique**

*Varya Simpson, SNR Denton, USA*

Speakers: Cristina de A Salvador (Miguel Neto Advogados Associados, Brazil), Julia Dnistrianski (Finlaysons, Australia), KumkumSen (Bharucha & Partners, India), Helen Haixiao Zhang (Zhong Lun Law Firm, China), Susan de Silva (Bird & Bird, Singapore), Anne Durez (Total SA, France) and Eriko Hayashi (Oh-Ebashi LPC & Partners, Japan)

The Women Business Lawyers Committee and the Corporate Council Committee jointly presented the first IPBA Cultural Exchange Session at the 2012 New Delhi Conference. The room was filled

to overflowing at this last session on the last day of our conference to hear lawyers from numerous jurisdictions speak about aspects of doing business in their individual cultures and traditions.

The panel, moderated by Varya Simpson, concentrated on three situations we often find ourselves facing as lawyers involved in cross-border transactions: (i) protocol for introductions and gift giving; (ii) fundamentals for meetings, including seating arrangements, priority of speaking, side discussions, and appropriate clothing attire and; (iii) eating and drinking etiquette at business meetings, including appropriateness of discussing personal and family matters.

Everyone who attended heard something unexpected and learned something new. We were only able to dip our toes into the waters of this fascinating subject, one which appears to hold great personal and practical interest for our members, and we hope to allow more in-depth immersion in future sessions to help us better understand how to effectively interact with each other. This is what the IPBA is all about.

### **New Trends in Bankruptcy: Speedy Resolution of Insolvency Procedure**

*Byung-Joo Lee, Shin & Kim, Korea*

Speakers: Shinichiro Abe (Baker & McKenzie GJBJ, Japan), Dr Burkard Göpfert (Gleiss Lutz, Germany), and Isabelle Smith Monnerville (Aarpi Smith Violet, France).

We had our insolvency session at 9am on Saturday after the Gala Dinner. So we were a little worried about the attendance in that many lawyers might be sleeping late after a long Friday evening. At 9.05am, we had only five attendees excluding our moderator and speakers. So I, as the moderator and Insolvency Committee chair, felt that our insolvency session was now almost bankrupt! But as our three speakers started their presentation, the session room was quickly filled with almost full attendance, and I was relieved that my session was rehabilitated from the risk of bankruptcy.

The session was very entertaining. The first speaker, Shinichiro Abe used comic characters in his presentation of the speedy reorganizing process of Japan. So, it was like reading a *manga* or Japanese comic book. The second speaker, Isabelle Smith Monnerville, described that traditional bankruptcy proceeding in France was chaired by layman judges who are usually businessmen in town at the commercial court. In her presentation, we could imagine a scene in a French movie

where the merchants of the town sit together at the commercial court and discuss the rehabilitation of a troubled company in their neighborhood. Finally, our last speaker, Dr Burkard Göpfert, almost persuaded the audience, including me, to invest money in Germany or French stock because he convinced us that the EU crisis will be resolved and the stocks in Europe are at their best prices now. Burkard was such an excellent bankruptcy advocate that he was pulling money out of the pockets of the bankruptcy lawyers around world to save the EU from the present bankruptcy crisis.

### **Bankruptcy in South Asia**

*Pradeep Pillai, Shook Lin & Bok LLP, Singapore*

Speakers: Mona Bhide (Dave Girish & Co, India) and H Jayesh (Juris Corp, India).

As the vice-chairman of the Insolvency Committee, I was the panel moderator for the session on Bankruptcy in South Asia. The speakers, Mr Jayesh spoke about the recent developments in insolvency law in India and Mona Bhide spoke about cross-border insolvency issues in the South Asia region. She also spoke about her experiences working on the BCCI insolvency *vis-a-vis* the Indian angle. The session was well attended and there was a spirited and insightful exchange during the Q&A session. In his talk, Mr Jayesh shed light on the powers and functions of the Board for Industrial and Financial Reconstruction. He also explained the effects of the recent *Wockhardt* judgment.

### **A Report on the WBLC's New Delhi Session on Rainmaking: Innovative Legal Trends in Changing Times**

*Priti Suri, PSA Counsellors, India*

Speakers: Juliet Blanch (Weil, Gotshal & Manges, UK), Sitpah Selvaratnam (Tommy Thomas, Malaysia), Caroline Berube (HJM Asia Law & Co LLC, China), Rajas Jاسبekar (Little & Co, India) and Maxine Chiang (Lee, Tsai & Partners Attorneys-at-Law, Taiwan, China).

At the 2012 Annual Conference in New Delhi, the Women Business Lawyers Committee held a stand-alone session on 1 March 2012 on 'Rainmaking: Innovative Legal Trends in Changing Times'. Priti Suri, PSA, New Delhi moderated a stellar panel comprising of Juliet Blanch, Sitpah Selvaratnam, Caroline Berube, Rajas Kasbekar and Maxine Chiang. The panelists were all partners/managing partners from diverse jurisdictions who brought a wealth of experience to the session. The objective

was to develop awareness of approaches to rainmaking that counterparts in other parts of the world are using successfully and to raise awareness of strategies used in communities that may have relevance elsewhere.

In the first part of the session, the highly engaging discussion evolved, focusing on multitude suggestions and it became apparent that there is universality on some points regardless of the jurisdiction. Excellence in performance is a given. The group felt that to be successful in rainmaking, it was necessary to:

- **create and seize opportunities** for yourselves and **carve niches**, as needed;
- know clients and their business and **be honest** with them;
- demonstrate to clients you **care**;
- not to succumb to pressures but be **yourself** – ie market yourself in a way that matches with your ideologies so that rainmaking does not become burdensome;
- be **persistent, passionate and patient** about the practice – *the energy of passion is infectious and will not go unnoticed*;
- align **strategies** with the local customs;
- don't try too hard – you'll trip over yourself or trample over others, and it will be counter-productive; and
- connect regularly with existing clients as studies reveal that 80% of the business comes from them.

Finally, bringing a unique philosophical perspective, Sitpah suggested reliance on one's innate connectivity and interdependence. By tapping into the metaphysical aspect of one's being, whilst doing everything required at the physical and mental level, by remaining calm and peaceful, one could project desires and intention into the universe and creative suggestions and strategies will emerge.

In the latter part of the session, the attendees participated in interactive small group discussions seated around 10 tables and were invited to discuss whatever they could from four different topics: (a) does cold-calling work; (b) is it important to develop a niche practice; (c) how to retain young lawyers; and (d) can corporate policies impact rainmaking? While three topics largely focused on rainmaking, retention of talent emerged as a cause for concern that required a discussion.

The audience participation was a surprising contrast of 80% men and 20% women. There were more than 80 attendees throughout the three-hour session and about 100 for the first 90 minutes. The numbers were staggering and the presence of such a large majority of men clearly revealed that rainmaking challenges are gender neutral. The big reward for all the panelists who had traveled from afar and near was to have a fully engaged and interactive audience – to hear the energy, passion and perspectives provided by all the participants and their willingness to share the experiences and challenges they face in developing and maintaining their legal careers.

## The Best Paper Prize Winner

# ‘What’s in a Name’... John Doe Arrives in India



The winning article of the 2nd Annual Best Paper Prize Program examines the origins of the John Doe order, also known as a ‘rolling’ Anton Piller order, and considers the various approaches used by different jurisdictions in using these orders as a means of enforcing intellectual property rights. This article then analyzes the usage of John Doe orders and further initiatives taken by the Indian Courts.

**Payel Chatterjee**

**Associate, Nishith Desai Associates**

Intellectual property, (IP) though intangible, is probably the most important form of property today. The definition of IP has widened with the growth of international trade and globalization of economy, giving the whole business a new paradigm.<sup>1</sup> The theft of IP, which has developed into a powerful commercial asset with the ever-evolving digital technology, has also become rampant. As we all know, there are two sides to a coin – development of technology with its positives has also facilitated IP infringement by unknown and unidentified entities constituting a class of infringers. This necessitates the need for evolution in IP protection, which considering its nature, is no easy task.

This led to the introduction of Anton Piller orders, which permits the plaintiff’s counsel to enter the infringer’s premises and seize

evidence of infringement, prior to the institution of an action.<sup>2</sup> The Anton Piller order is a form of discovery preservation granted on an *ex parte* application.<sup>3</sup> The Indian courts adopting the trend have granted several interim injunctions and Anton Piller orders for search and seizure in order to stop an infringer or a class of infringers from continuing unlawful activities. However, this did not address the issue of unknown infringers and led to the adoption of ‘John Doe’ orders, whose origin can be traced back to the reign of England’s King Edward III, when such orders were used to refer to unidentifiable defendants.<sup>4</sup> Thereafter, John Doe orders were granted mainly by US and Canadian courts. Recently, India has started using this unique concept under the alias ‘John Doe/Ashok Kumar’ orders to punish a class of unknown infringers.

This paper analyzes the origins of John Doe orders and their evolution and global recognition. It also looks at how different jurisdictions utilize this potent weapon.

## Tracing the Origins

The Anton Piller injunction originated in the 1976 decision of the English Court of Appeal in *Anton Piller KG v Manufacturing Processes Ltd*<sup>5</sup> in the form of an extraordinary equitable remedy permitting the plaintiff to search and seize the premises of the infringer with the intention of preserving the evidence that may be destroyed.<sup>6</sup> Such orders are required to be passed with extreme caution thereby necessitating full and complete disclosure by the plaintiff of all the details in the matter. However, these orders were restricted to investigating premises of known persons and did not address the wrongs committed by unknown and unidentified infringers. Across all jurisdictions, practitioners and intellectual property rights holders have been faced with the daunting task of not letting the infringer go scot-free. As a result, to prevent infringement of intellectual property rights against unidentified (or 'John Doe') defendants similar orders were passed, often referred to as 'rolling' Anton Piller orders. The name 'John Doe' is used to identify unknown/nameless defendants/infringers, who have allegedly committed some wrong, but whose identity is unknown to the plaintiff. To avoid delay and render justice, the court names the defendant as 'John Doe', until such time the defendant is identified. The orders passed by court in such cases are thus popularly known as 'John Doe orders'. Once the defendant(s) are identified, 'John Doe' is replaced with the name of the concerned defendant, who defends the matter as in any other intellectual property infringement case. If the anonymous defendant is a female, the name 'Jane Doe' has been known to be used.<sup>7</sup> However, it has been common practice in the Indian legal system, wherein such orders have been passed in the past in criminal proceedings for protection against infringement requesting initiation of search and seizure proceedings against known and unknown persons.<sup>8</sup>

The introduction of John Doe is merely enforcing similar reliefs in civil proceedings. Such orders reflect the positive outlook of the court to provide relief to the rights-holders in new and different situations.<sup>9</sup> Most often, such orders are mistaken for being treated as search warrants but in actuality are orders enforceable against a defendant personally to allow the plaintiff to enter the premises, or 'face the music' in the form of contempt proceedings.<sup>10</sup> John Doe orders are made when there are no other alternatives to ensure justice and they are a means to provide an immediate and effective course of action to the plaintiff.<sup>11</sup> It is interesting to note that the effectiveness, impact and implementation of such orders are yet to be seen in the Indian scenario.

John Doe is an internationally accepted practice to enforce intellectual property rights of parties and is prevalent in several foreign jurisdictions including Canada, the US, Australia and the UK. The order has been formalized in the Civil Procedure Act of 1997 (UK), the Federal Court of Australia Practice Notes, the New Zealand Rules Committee,<sup>12</sup> and also in the Canadian regime. The other jurisdictions have not restricted its scope only to intellectual property but have travelled beyond it and used it in other fields of law. The next part of the paper will provide a bird's eye view of the development of the concept in other jurisdictions before discussing at length about the Indian context.

### The UK

The trend started in the UK in 1975 for inspection and removal of documents with regard to alleged violations of copyright.<sup>13</sup> John Doe orders are enforceable against anyone in the group constituting the class of infringers to whom the order is addressed. It is an extraordinary remedy passed *ex parte*, covering both inspection and removal of documents but with the consent of the defendant.<sup>14</sup> The John Doe order presents the advantage of allowing a trademark or copyright owner to preserve evidence to be used in proceedings against infringers who can often only be identified at the time that they are seen to possess counterfeit goods and who might otherwise attempt to conceal or destroy the evidence.<sup>15</sup> The John Doe order also affords the trademark or copyright owner the possibility of curtailing the infringer's future activities by means of an injunction, while depriving the proposed infringer of his/her stock of counterfeit goods by means of a seizure of those goods. The Court of Appeal, while determining the jurisdictional framework for application of such orders, held that the same fell within the inherent jurisdiction of the court.<sup>16</sup> Further, interlocutory orders in the nature of John Doe orders were also passed in 1985 on the basis that the named defendant represented a class of copyright and trademark infringers having sufficient common interest but instead of ordering a search and seizure, ordered the defendants to discontinue distribution of pirated materials.<sup>17</sup> The product being pursued in that action was counterfeit, dressed up to look like the original material of the plaintiff and knowledge of the identity of one individual defendant enabled the Court of Appeal to fashion an order which could be effective against others and, in practice, effective against others comprising the class of infringers who had very little if any connection with the plaintiff.<sup>18</sup> The Court of Justice Chancery Division, following the same principle

passed an order in *Bloomsbury Publishing Plc, JK Rowling v Newsgroup Newspapers Ltd*<sup>19</sup> wherein an injunction was passed to enjoin the person or persons who had offered the publishers of *The Sun*, the *Daily Mail*, and the *Daily Mirror* newspapers a copy of the book *Harry Potter* or any part thereof and the person or persons who had physical possession of a copy of the said book or any part thereof without the consent of the plaintiff.<sup>20</sup>

#### Canada

John Doe orders are used in Canada by owners of intellectual property rights to preserve evidence against infringers.<sup>21</sup> Additionally, the rise of the internet has also brought an explosion of John Doe lawsuits. The nature of the unique orders has been summarized by Reed J in *Fila Canada Inc v Doe*<sup>22</sup> as follows:

“The order, which is sought, is what is known as a ‘rolling’ Anton Piller order. As is obvious from the style of cause, when these orders are obtained from the Court neither the identity nor the address of the persons against whom they will be executed are known. On some occasions one or two persons may be identified as named defendants but they will have no necessary connection to the Jane and John Does against whom the order will be executed. The known defendants are allegedly infringing intellectual property rights belonging to the plaintiff but in different places, at different times and in different circumstances. These ‘rolling’ orders can be distinguished from defendant-specific Anton Piller orders. While defendant-specific Anton Piller orders may also include Jane and John Doe defendants, in general, the latter will be connected to the named defendants ...”.

The striking aspect in the Canadian jurisdiction is that along with development of the concept, several conditions and guidelines have been established towards its enforcement to facilitate actual implementation of the order, creating a wide sweeping pre-judgment seizure order.<sup>23</sup> Some exceptions have also been carved out for better implementation of John Doe orders.<sup>24</sup> It is perceived as a nuclear weapon of civil procedure<sup>25</sup> and requires the highest level of scrutiny and procedural protections.<sup>26</sup> The four basic criteria to obtain a John Doe order consists of the following basic aspects:<sup>27</sup>

1. the plaintiff has an *extremely strong prima facie* case on the merits (emphasis added);<sup>28</sup>

2. the potential or actual damage to the plaintiff relating to the defendant’s activities is ‘very serious’;
3. the defendant likely has in its possession incriminating evidence; and
4. there is a real possibility that the defendant may destroy such evidence before the discovery process.

The Canadian courts while dealing with such cases have held that merely an isolated incident is not sufficient but should provide particulars causing widespread infringement.<sup>29</sup> Such orders being extraordinary and extremely intrusive require a high level of disclosure from the applicant to prevent invasion of privacy rights.<sup>30</sup> Further, a time frame has also been set up to file such applications to demonstrate urgency in the matter.<sup>31</sup> The Federal Courts in some cases have also suggested appointment of independent advisors (an *amicus curiae*) to provide independent supervision and facilitate execution of such orders.<sup>32</sup> The John Doe orders that are passed are reviewed within 14 days to facilitate proper implementation and to provide an opportunity to the applicant to verify documents and goods to establish infringement.

The usage and application of the orders have also been extended to certain Internet Service



Providers (ISPs) to prevent unknown customers from illegally downloading music from the internet. This is discussed at length in the landmark judgment of *BMG Canada Inc vs John Doe*.<sup>33</sup> The plaintiff contended that more than 1000 songs were downloaded by installing peer-to-peer applications, copying files to shared directories and using ISP services to connect home computers to the internet, leading to copyright infringement by reproduction, authorization of reproduction and distribution of unauthorized copies of sound recording. The applicant sought disclosure of names and addresses of their account holders who illegally downloaded. The trial court dismissed the motion and held that due to the unreliability of evidence produced, the public interests in favour of disclosure did not outweigh privacy interests. This led to an appeal wherein the Federal Court acknowledged the legitimate copyright of the plaintiff and held that 'where there exists evidence of copyright infringement, privacy concerns may be met if the Court orders that the user only be identified by initials or makes a confidentiality order'.<sup>34</sup> The Court of Appeal tilted in favour of the copyright owners<sup>35</sup> and prescribed a low threshold requirement of proving 'a bonafide claim and not a *prima facie* case'.<sup>36</sup> This landmark judgment has paved the way for a copyright

holder to identify the true identities of the internet infringers and prevents them from hiding behind pseudonyms.<sup>37</sup>

John Doe subpoenas are the primary means to enforce the rights of the intellectual property holders for litigation in the internet arena; as a result, an effective standard governing them is needed.

A standard that is too weak decimates the protection of anonymity, allowing plaintiffs to 'pursue ... extra-judicial self-help remedies'<sup>38</sup> by unmasking defendants who have said nothing actionable and are 'simply seeking revenge or retribution'.<sup>39</sup> However, anonymity should not be used by infringers as a shield of protection leaving the plaintiff without a potential defendant.<sup>40</sup> The courts need to be careful when passing such orders and need to distinguish between false and genuine cases, and when piercing the veil to unravel the truth.

#### *United States*

In the US, these orders are useful in combating bootlegging operations because the public face of the operation often changes from venue to venue.<sup>41</sup> Applicability of such orders is not merely restricted to the intellectual property regime but has been expanded to include within its realm different kinds of situations and offences. The Internal Revenue Service has also filed an application seeking records from HSBC Bank, USA to view accounts of persons alleged to be involved in tax evasion. The said case has been filed to ascertain that taxpayers pay taxes on foreign bank accounts.<sup>42</sup> Further, with regard to ISPs, a Pennsylvania District Court held that due process should be followed and customers should be given prior notice to deal with such cases. Several amendments have been suggested to the Copyright Act thereby imposing obligations on ISPs to maintain records that would permit determining the identity of the infringer.<sup>43</sup>

Suits have been instituted for bank frauds, usage of malicious software and unauthorized interception of electronic communications wherein John Doe orders have been passed and assistance has been taken from the Federal Bureau of Investigation (FBI) for execution and enforcement of orders.<sup>44</sup> John Doe orders have also been passed for computer intrusions, conspiracy and money laundering matters to prevent being infected from malicious software; an Internet Systems Consortium has been appointed as a receiver to install, monitor and administer domain name servers to facilitate identifying victims of malicious software.<sup>45</sup> Blogging on the internet space has led to several John Doe lawsuits and comments being posted by third parties have led to legal consequences.<sup>46</sup>



### Australia-New Zealand

John Doe orders have been sought in *ex parte* applications to the court, but are granted only if strict requirements are met.<sup>47</sup> The Copyright Agency Ltd (CAL) set up in Australia is of the opinion that courts are reluctant to grant Anton Piller orders, as they turn out to be a very expensive affair.<sup>48</sup> The courts grant such orders to restrain sale of pirated copyright materials as well as permitting the plaintiff to seize infringing materials.<sup>49</sup>

Justice Anderson in the New Zealand case of *Tony Blain*<sup>50</sup> held that:

“... relief sought in injunction applications and in terms of Anton Piller orders are similar. Each involves an intrusion on privacy but is an intrusion which has been justified on the basis of the court’s equitable jurisdiction can properly be extended to meet the realities of modern commercial situations. It is an ancient maxim of the law that where there is a right there is a remedy; *ubi jus, ibi remedium*. In circumstances where it is plain that persons are infringing proprietary interests which the law recognizes, or deceiving the public by way of trade in a manner which may indirectly affect the commercial interests of others, the law should, if it reasonably can, provide a remedy.”

Further, differentiating John and Jane Doe orders he stated that:

“The fact that persons cannot be identified at this stage of the proceedings is no bar to relief against persons who may be identified at a relevant time. It is not the name but the identity and identification of the infringing persons which is relevant. The identity may not be immediately established, but persons infringing will be identified by their act of infringements. Jane Doe and John Doe will be known by their works.”

The process of granting such orders in Australia involves surveillance and investigative and forensic activities.<sup>51</sup> In both jurisdictions, rolling Anton Piller orders are passed, restricting the same to a specified boundary to clarify its extent whereas the Canadian courts have granted such order combining the same with Anton Piller orders and applicable throughout the jurisdiction as part of the inherent jurisdiction of the court.<sup>52</sup>

### John Doe in India

The Indian courts have not been far behind in passing such orders and initiatives have been taken in cases involving trademark, copyright infringement, personal privacy and confidential information. The Indian judiciary has taken positive steps towards development of this trend and recognizing the need for such orders to provide relief to victims/parties. The Indian courts have since long granted interim orders under Order 39 Rules 1 and 2 of the Code of Civil Procedure, 1908 (CPC), to protect the rights of the plaintiff and prevent possible injury. The statutes including the Trademarks Act 1999 and Geographical Indication of Goods Act 1999 also provide for such interim orders. But under certain situations, often by the time interim orders are granted, enough damage has already been caused. To address such specific situations, the common law concept of ‘John Doe/Jane Doe’ orders, recognized as ‘Ashok Kumar’ orders in India, may come to the rescue.

The Anton Piller order has been passed by Indian courts, highlights the significance of full and frank disclosure of the plaintiff, as well as the appointment of special officers by the court within 14 days to provide a report on the alleged illegal sale/marketing/distribution of the drawings/design and get-up similar to that of the plaintiff.<sup>53</sup> The basic principles for passing such orders have been adopted from the foreign jurisdictions; however, Justice Ganguly has held that Anton Piller orders should be primarily used for preservation of evidence.<sup>54</sup>

The Delhi High Court (the ‘Delhi HC’), considering the abovementioned factors and at the eleventh hour passed its very first John Doe order in 2002 in *Taj Television Ltd v Rajan Mandal*.<sup>55</sup> The matter dealt with the unauthorized transmission of a broadcast (‘Ten Sports’) by unlicensed cable operators without entering into agreements with the marketing partners of the plaintiff. Around 1377 cable operators had obtained licenses but several prominent cable operators had not signed up and broadcasted the same without any approvals. The plaintiff was the owner of the registered broadcasting rights<sup>56</sup> of the channel for the soccer World Cup 2002. The unauthorized broadcasting caused losses to the plaintiff and also strained their relationship with the other licensees.

The court recognized the unique nature of cable piracy and its position of being unable to enforce such rights. By waiting and finding specific cable operators would have led to huge losses of revenue suffered by the plaintiff. In light of the situation, the court exercised its inherent power under s 151

of the CPC and in tandem with internationally recognized principles of John Doe in the other foreign jurisdictions, passed a John Doe order and appointed a court commissioner to search the premises of other unnamed cable operators and seize evidence by taking photographs and videos. The judgment discussed in detail the applicability of 'John Doe' orders in various foreign jurisdictions including Canada, the US, England and Australia. The action was an immediate success in curbing what might have been a total destruction of the plaintiff's IP rights.<sup>57</sup> The principle rests on the basic premise that as long as the litigating finger is pointed at a particular person then the misnomer is not fatal.<sup>58</sup>

The same trend has been followed in *ESPN Software v Tudu Enterprises*<sup>59</sup> where it was held that subscription to channels without a license will be impermissible. The plaintiff in the case also claimed to be the sole and exclusive distributor of three pay channels, namely, ESPN, STAR Sports and STAR cricket channels in India, having obtained the exclusive right from ESPN STAR Sports to televise in India until 2015 for all ICC events. The defendant indulged in rampant piracy at the time of the practice matches and fearing losses, the plaintiff filed for a John Doe order apprehending unauthorized cable transmission of the plaintiff's broadcast that would have led to irreparable loss and damage including subscription loss, as well as advertisement revenues. Such practices would also encourage other cable operators who have currently procured licenses from the plaintiff and possessed valid licenses to also transmit unauthorized signals without making necessary payments thereby defeating the public interest.

The application of such acts has not been restricted to the media industry alone. As seen in other jurisdictions, such orders are passed to seize counterfeit goods in possession of unknown persons infringing trademarks and copyright of the plaintiffs. Unidentified persons indulging in manufacture and sale of counterfeit opticals under the trademark of 'RAY BAN' without any prior authorization faced dire consequences in *Luxottica Group Limited v Ashok Kumar*. A similar John Doe order also came in the form of restraining unidentified persons from infringing labels, packaging materials and artistic work of the plaintiff, who was engaged in sale and manufacture of cigarettes.<sup>60</sup>

### John Doe – Prevention is Better than Cure

The Indian judiciary has woken up to the situation and realized that in several situations such orders

needed to be passed even before the infringement had taken place in order to restrain threatened or imminent wrongful acts, in the form of *quia timet* injunctions. The jurisprudence has developed through a series of judgments in India pertaining to the media industry involving copyright violations and defamation through blogging on the internet, as well as trademark infringements. The scope and usage of John Doe orders in India has not extended beyond intellectual property violations as, to date, most people are unaware of its existence although there is provision for it in criminal legislations for protection of intellectual property infringement.<sup>61</sup> Creating widespread awareness about the positive effects of such orders is essential to maximizing its usage and to curtail the wrongful acts of infringers.

*Quia timet* injunctions have recently been ordered prior to the release of several new movies to prevent the sale of pirate copies and illegal copying/distribution/broadcast of new films/songs by cable operators and other unauthorized persons. The Delhi HC has been the most pro-active in creating awareness and passing such unique orders in case of movies like 'Singham, Bodyguard and Speedy Singhs' and 'Don 2' by granting ad-interim *ex parte* injunctions to production houses like Reliance and Viacom 18 Motion Pictures against a number of cable operators and unknown persons from copyright infringement.

### The Media Industry

In the *Singham* case,<sup>62</sup> although no actual infringement had taken place, interim applications were filed for an injunction to prevent piracy and loss of revenue to the plaintiff. In such cases, the onus is placed on the plaintiff to establish the basic criteria for a *prima facie* case, imminent danger and a balance of convenience. A John Doe order was passed, restraining all defendants and other unknown persons constituting a part of the same class from distributing, displaying, duplicating, uploading, downloading or exhibiting the movie in any manner. Eventually, numerous Indian ISPs were contacted to block access to several file sharing websites. Thus, John Doe orders are becoming quite common in the film industry and seem to be an effective way to curb piracy.

The trend is not restricted to only movies but as was initiated in *Taj Television*,<sup>63</sup> cases involving broadcasting/using unauthorized signals for downloading/telecasting purposes during the Indian Premier League (IPL) cricket tournament have also come before the Delhi HC in the case of *Satellite Singapore PTE Ltd v Star Cable Network*.<sup>64</sup> John Doe orders were passed to protect the rights of the applicant who held the exclusive broadcasting

rights for IPL matches in India. Search and seizure orders were passed for the appointment of a commissioner to check premises for ascertaining illegal transmission/downloading of IP match signals, during the hours when IPL matches were telecasted.

### Software-ISPs Domain

Following the path paved by other jurisdictions, India has not been far behind in tracking ISPs to prevent unwanted and unlawful materials from being shown or posted on the internet by anonymous bloggers or made available for illegal downloading. Recently, Reliance obtained a John Doe order from the Delhi HC to prevent pirated copies of the movie 'Don 2' from being sold/downloaded/distributed. However, the order seems to have been misused as Reliance resorted to blocking several file-sharing websites that were accessible on the networks of other ISPs. The act has caused an uproar because only the Department of Information Technology is entitled to block websites. The blocking of websites without sufficient proof that the users were indulging in piracy is similar to shutting down a public library from access to general public.<sup>65</sup> But the issue remains as to whether Reliance is a concerned intermediary because it was not the entity hosting the content. This leads to the contentious issue about the liability of intermediaries and ISPs.

The issue was initially highlighted in the case of *IFCI Ltd*<sup>66</sup> which involved the posting of derogatory remarks/write-ups on Google, Facebook and Twitter by using blogs/URLs and emails. A John Doe order was passed directing the unidentified defendants from blocking the sites/blogs and ascertaining the actual users/persons creating URL/IP addresses. The Delhi HC, in the recent judgment of *Super Cassettes Industries v Myspace Inc*<sup>67</sup> held that social networking sites (SNSs) such as YouTube, Myspace etc may be held liable for copyright infringement caused due to infringing materials posted on their websites, provided it is established that the intermediaries have control over the material posted, the

opportunity to exercise due diligence in preventing the infringement and deriving profits out of such infringing activities in consonance with s 79 of the Information Technology Act read together with the Information Technology (Intermediaries guidelines) Rules 2011.

### Conclusion

The Indian courts are moving in the right direction but at the same time they need to ensure that the entire purpose of such orders is not defeated or misused. While exercising its inherent jurisdiction under the provisions of the CPC, the Delhi HC in *The Indian Performing Right v Mr Badal Dhar Chowdhry*,<sup>68</sup> held that vague injunctions may not be issued and categorically stated that a 'vague injunction can be an abuse of the process of the court and such vague and general injunction of anticipatory nature can never be granted'. The scope and extent of such orders need to be categorically stated to avoid any sort of misuse.

The usage of John Doe orders in the Indian scenario has brought awareness and protection to holders of IP rights but the question remains as to how such orders will be implemented and enforced. The issue before us is if the unidentified defendants are unaware of such orders or unwilling to abide by the court order and continue with the infringement, does the plaintiff have any recourse to any remedies or is the entire process of obtaining such orders wasted, leaving the plaintiff without any benefit and losing its entire impact. The appointment of commissioners for search and seizure and new guidelines for curbing copyright infringement are all modes of effectuating John Doe orders. But still, the notion seems to be at a nascent stage with a handful of orders being passed and still very few people knowing about its usage and application. An effective mechanism needs to be set into motion to address the implementation of such extreme orders, by way of communicating the same to the proposed infringers through proper methods and their compliance to receive the desired reliefs. John Doe has miles to go in achieving its ultimate purpose.

## Notes:

- <sup>1</sup> IIPRD Presents One-Day Symposium on Intellectual Property Profile in Business Growth with focus on 'Creation, Protection, Promotion, and Commercialization of Intellectual Property for Business Growth'; available at: [http://iiprd.com/schedule\\_educational\\_program.html](http://iiprd.com/schedule_educational_program.html).
- <sup>2</sup> Daniel S Drapeau and Michel W Drapeau, 'The Taming of John Doe by Federal Courts of Canada' (2001) 17 CIPR 545; [1976] 1 All ER 55 (CA).
- <sup>3</sup> Souvik Bhadra and Arka Majumdar, 'Anton Piller Order in UK and its possible implications in India' (2007) Vol 12(9) *Journal of Intellectual Property Rights*, p 488.
- <sup>4</sup> What's In A Name? (1996) Merriam-Webster; available at: [http://en.wikipedia.org/wiki/John\\_Doe#cite\\_note-Webster1996-4](http://en.wikipedia.org/wiki/John_Doe#cite_note-Webster1996-4).
- <sup>5</sup> See Drapeau and Drapeau (note 2 above).
- <sup>6</sup> John H Simpson, "Rolling" Anton Piller Order Set Aside: "John Doe" Action Dismissed; available at: <http://www.slaw.ca/2010/04/26/rolling-anton-piller-order-set-aside-john-doe-action-dismissed/>.
- <sup>7</sup> Gowree Gokhale, Aarushi Jain and Payel Chatterjee, 'John Doe Orders, A Boon for IP protection'; available at: <http://www.legalera.in/Front-Page/john-doe-orders-a-boon-for-ip-protection.html>.
- <sup>8</sup> ss 93 and 94 of the Code of Criminal Procedure 1973; *Pramod Kumar Bhandari v State* (1997) CriLJ 1015; *Rajesh Garg v Tata Tea Ltd* (2011) (3) JCC 1892.
- <sup>9</sup> *Rank Film Distributors Ltd v Video Information Centre* [1981] 2 WLR 668 per Lord Wilberforce at 672.
- <sup>10</sup> *Anton Piller KG v Manufacturing Processes Ltd* [1976] 1 All ER 55 (CA).
- <sup>11</sup> See Drapeau and Drapeau (note 2 above).
- <sup>12</sup> Judicature Act 1908 No 89 (as at 1 February 2009), Public Act, Act by section, Sch 2 of the High Court Rules, Pt 33 Search orders, New Zealand Legislation: Acts, Consulted on May 7, 2009.
- <sup>13</sup> *EMI Ltd v Pandit* [1975] 1 WLR 302.
- <sup>14</sup> See Bhadra and Majumdar (note 3 above).
- <sup>15</sup> *Cullom Machine Tool and Die Inc v Bruce Tile Inc* (1990) 34 CPR (3d) 296 at 303-5 (FCTD); and *Nintendo of America Inc v Coinex Video Games Inc* [1983] 2 F.C. 189 (FCA).
- <sup>16</sup> See Drapeau and Drapeau (note 2 above).
- <sup>17</sup> *EMI Records Ltd v Kudhail* [1985] FSR 36 (CA).
- <sup>18</sup> *Ibid.*
- <sup>19</sup> [2003] EWHC 1087 Ch.
- <sup>20</sup> See: <http://www.5rb.com/case/Bloomsbury-Publishing-Group-Ltd--v-News-Group-Newspapers-Ltd--Others>.
- <sup>21</sup> *Nike Canada Ltd v Jane Doe* (1999) 1 CPR (4th), 289 (FCTD).
- <sup>22</sup> [1996] 3 FC 493 (TD).
- <sup>23</sup> Prof Jeff Berryman, 'Thirty Years After: Anton Piller Orders and the Supreme and Federal Courts of Canada' (2007) 2(3) *Journal of International Commercial Law and Technology*.
- <sup>24</sup> *Nike Canada Ltd v Jane Doe No 2* (1999) 2 CPR (4th) 501 (FCTD).
- <sup>25</sup> *Bank Mellat v Nikpour* [1985] FSR 87 (CA).
- <sup>26</sup> See Gokhale, Jain and Chatterjee (note 7 above).
- <sup>27</sup> Ormrod LJ in *Anton Piller KG v Manufacturing Process Ltd* [1976] Ch 55 (CA).
- <sup>28</sup> *Rank Film Distributors Ltd v Video Information Centre* (1980) 2 All ER 273 states the need for compelling evidence.
- <sup>29</sup> *Club Monaco Inc v Woody World Discounts* (1999) 2 CPR (4th) 435 (FCTD).
- <sup>30</sup> See (note 22 above).
- <sup>31</sup> *Ibid.*
- <sup>32</sup> *India Manufacturing Ltd v Lo* (1996) 110 FTR 201
- <sup>33</sup> [2004] FCJ No 525 (QL).
- <sup>34</sup> Linda Wright, 'An overview of the BMG Case' (2005) 6(5) *Internet and E-Commerce Law in Canada* 40.
- <sup>35</sup> Copyright Act RSC 1985.
- <sup>36</sup> *Canadian Private Copying Collective v Canadian Storage* [2004] FCJ No 2115 FCA 424 at [147].
- <sup>37</sup> See Wright (note 34 above).
- <sup>38</sup> *Doe No 1 v Cahill* 884 A 2d 451, 457 (Del 2005). For a classic example of a plaintiff's 'self-help', see Kaitlin Quistgaard, 'Raytheon Triumphs over Yahoo Posters' Anonymous, Salon.com, 24 May 1999; available at: <http://www.salon.com/tech/log/1999/05/24/raytheon/index.html>. As cited in Nathaniel Gleicher, 'John Doe Subpoenas: Toward a Consistent Legal Standard'; available at: <http://ssrn.com/abstract=1378742>.
- <sup>39</sup> See *Cahill* (note 38 above), 457.
- <sup>40</sup> Scot Wilson, Comment, 'Corporate Criticism on the Internet: The Fine Line Between Anonymous Speech and Cybersmear' (2002) 29 *Pepp L Rev* 533, 537.
- <sup>41</sup> Civil Remedies for Copyright Infringement, available at: <http://www.aph.gov.au/house/committee/laca/copyrightenforcement/chap5.pdf>.
- <sup>42</sup> Department of Justice-Office of Public Affairs,

- 'Justice Department Asks Court to Allow IRS to Seek HSBC India Bank Account Records' (7 April 2011); available at: <http://www.justice.gov/opa/pr/2011/April/11-at-439.html>.
- <sup>43</sup> Bill C-60. An Act to amend the Copyright Act, 1st Session, 38th Parliament 2005 as cited in Amy Min-Chee Fong, 'Unmasking the John Does of Cyberspace: Surveillance by Private Copyright Owners' (2005) *Canadian Journal of Law and Technology* 175.
- <sup>44</sup> *United States of America v John Doe* (1-13) United States District Court, District of Connecticut, No 3:11 CV 561 (VLB), April 2011.
- <sup>45</sup> *United States of America v John Doe* 18 USC 1956 (b)(4).
- <sup>46</sup> Corilyn Shropshire, 'Blogs vs the Law: Showdown Looms over Bloggers and Their Rights' (2005) 4 Oct *Pitt Post-Gazette*, at D1; available at: (2005) WLNR 16543937.
- <sup>47</sup> House of Representatives Standing Committee on Legal and Constitutional Affairs, 'Cracking down on copycats: Enforcement of copyright in Australia', Commonwealth of Australia (2000).
- <sup>48</sup> *Ibid.*
- <sup>49</sup> *Tony Blain Pty Ltd v Splain* [1993] 3 NZLR 185 (HC) and *Tony Blain Pty Ltd v Jamison* (1993) 41 FCR 414 (FCTD).
- <sup>50</sup> *Ibid.*
- <sup>51</sup> See (note 47 above).
- <sup>52</sup> Jeff Berryman, 'The Anton Piller Order-A Civil Search Warrant'; available at: <http://www2.americanbar.org/calendar/section-of-international-law-2011-spring-meeting/Documents/Thursday/Searching%20for%20the%20Truth%20and%20Seizing%20the%20Deceitful/The%20Anton%20Piller%20Order%20%E2%80%93%20A%20Civil%20Search%20Warrant.pdf>.
- <sup>53</sup> *Bucyrus Europe Ltd v Vulcan Industries Engineering* 2005 (30) PTC 279.
- <sup>54</sup> See Bhadra and Majumdar (note 3 above).
- <sup>55</sup> [2003] FSR 24.
- <sup>56</sup> Rights are statutorily recognized as per the provisions of s 37 of the Copyright Act 1957.
- <sup>57</sup> Transnational enforcement of intellectual property rights – Indian judiciary – Indian cases and suggestions for further strengthening intellectual property rights
- <sup>58</sup> Canadian judgments: *Jackson v Bubels* 28 (1972) DLT 500 (BCCA) and *Dukoff v Teronto General Hospital* (1986) 54 OR 50 (HC) as quoted in *Taj Television Ltd v Rajan Mandal* in CS (OS) No 1072/2002 and referred in *ESPN Software India Private Ltd v Tundo Enterprise* CS (OS) 384/2011.
- <sup>59</sup> CS (OS) 384/2011.
- <sup>60</sup> *Ardath Tobacco Co Ltd v Mr Munna Bhai* 2009 (39) PTC208 (Del).
- <sup>61</sup> ss 93 and 94 of the Code of Criminal Procedure 1973.
- <sup>62</sup> IA No 11242/2011 in I.A. No. 11242/2011CS (OS) No 1724/2011.CS(OS) No. 1724/2011
- <sup>63</sup> See (note 55 above).
- <sup>64</sup> [FAO (OS) 211/2010].
- <sup>65</sup> Javed Anwer, 'Blocking website in India: Reliance Communications shows it is very easy'; available at: [http://articles.timesofindia.indiatimes.com/2011-12-24/internet/30554592\\_1\\_block-websites-reliance-communications-reliance-entertainment](http://articles.timesofindia.indiatimes.com/2011-12-24/internet/30554592_1_block-websites-reliance-communications-reliance-entertainment).
- <sup>66</sup> CS (OS) 2696/2011.
- <sup>67</sup> MIPR 2011 (2) 303.
- <sup>68</sup> CS (OS) 1014/2004.

# The Gambling Business in Vietnam: What can Foreign Investors Expect?



Dang The Duc



Vo Huu Tu



Marc Desert

**Vietnam is poised to become a major destination for gambling business investors. However, under Vietnamese law, gambling is discouraged. This article examines the pros and cons to opening the casino business in Vietnam and the uncertainty that exists in the country's gambling regulations.**

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In early-December 2011, Las Vegas Sands, an American company and a primary investor in the Marina Bay Sands in Singapore, announced two investment proposals in resort complexes, one in Ho Chi Minh City and the other in Hanoi. The total invested capital of US\$6 billion will be one of the most important foreign-invested projects to be conducted in Vietnam. It is clear that the Las Vegas Sands investment project is very attractive and will boost tourism in the country; however, its social evils are less predictable. The very attractive large-scale investment project – which will integrate casinos – has also reawakened the legal debate on gambling regulations in Vietnam.

Under Vietnamese law, gambling is not 'encouraged'. It has been prohibited for many years because it was seen as contrary to the country's social policies and customs. The casino business is still considered to be a sensitive type of business in Vietnam. Currently, the top products in most casinos, the 'prize-winning games' (such as Aruze, Aristocrat, WMS, Blackjack and Roulette) are only open to play by foreigners and overseas Vietnamese living abroad.

In the last decade, lawmakers have deliberated on the opening of the casino business to investors in Vietnam. Accordingly, the Vietnamese Government has licensed some of the casino projects in the country, even in the absence of a legal framework for this type of business. The first casino to open in Vietnam was Do Son Casino in Hai Phong City, which was licensed back in 1992. The recently licensed projects are the Crowne International Casino in Da Nang City, and the MGM Ho Tram Casino in Ba Ria, Vung Tau Province, which have been granted as part of a mega entertainment and tourism complex.

### The Gambling Trend in the Region

Gambling is a highly profitable industry sector that can succeed in virtually any city in the world, the best example being Las Vegas, a gambling mecca located in the middle of the desert.

Asia is a continent that has enjoyed rapid economic growth and is populated by large numbers with enough wealth to spend on tourism and gambling. About 200 officially licensed casinos are operating in South-East Asia. Macau, Cambodia, Singapore, Malaysia, and almost every other regional power have legalized gambling.

Macau legalized gambling in the 19th century, and the Las Vegas Sands Company invested in the special administrative region of the People's Republic of China in 2004 to open the region's first western-operated casino.

Legalising gambling has generally led to positive consequences in the various parts of Asia, such as:

- tourism spin-offs: in Singapore, the Marina Bay Sands saw an increase in the number of tourists by 20% in 2010, and traveller expenditure by 49%;
- creation of tens of thousands jobs; and
- an increase in tax revenue.

Despite these positive effects, it is also clear that there are negative social aspects and these should not be ignored:

- personal bankruptcy;
- limited potential for workers to be promoted as the jobs created require low-skills; and
- taxes paid directly to state authorities are not well-distributed throughout the country.

Vietnam should not imagine itself as an exception. Vietnam already hosts a few casino projects and although local authorities have already seen income from these projects, the situation remains sensitive. Vietnamese citizens are not allowed to gamble in casinos located within the country. In order for Vietnamese citizens to gamble overseas, they must take foreign currency out of the country which contributes to 'foreign currency bleeding' at an estimated rate of US\$1 billion annually.

### Uncertainty in Vietnam's Gambling Regulations

Provisions regulating the gambling business are scattered in different legal instruments. General investment laws offer some guidelines on gambling while other more specific rules are outlined in special decisions. The legal framework is unclear and sometimes inconsistent. Moreover, the legislation often uses different terminology

to target different kinds of gambling games. This attempt at regulation by varied legerdemain creates confusion and ambiguity that cause legal barriers to implementation by investors.

With respect to the general investment framework, three key laws deal with gambling business services:

- Law on Enterprises No 60/2005/QH11 (the 'Enterprise Law') dated 29 November 2005, with its guiding legislation (Decree No 139/2008/ND-CP and Decree No 102/2010/ND-CP) that prohibits business lines which include providing services of organizing gambling or running gambling dens/or keeping a gambling house in any form;
- Commercial Law No 36/2005/QH11 dated 14 June 2005 with its guiding legislation that prohibits all gambling products (Decree No 59/2006/ND-CP and Decree No 43/2009/NP-CP);
- Law on Investment No 59/2005/QH11 ('the Investment Law') dated 29 November 2005, with its guiding legislation (Decree No 108/2006/ND-CP) that lists sectors in which investment is conditional, and includes 'commercial operation of casinos' as a sector subject to the Prime Minister's approval (Article 37.1(dd), Decree 108); and
- under Vietnam's commitments to the WTO, Vietnam is not committed to opening gambling services to foreign investment (CPC 96492).

With respect to the special legislation specific to gambling, since 2003 the government has issued regulations, on a step-by-step basis, to frame gambling activities.

#### *Regulations on prize-winning (electronic) games*

The first step was the regulations on 'prize-winning electronic games' and 'other prize-winning games' made by two decisions issued in 2003 and 2005.

**Decision No 32/2003/QĐ-TTg** of the Prime Minister ('Decision 32') dated 27 February 2003 provides regulations on conducting the business of electronic games with prizes for foreigners. It is the first regulation on gambling in Vietnam. Decision 32 sets out numerous restrictions and conditions on investment. The general essence of Decision 32 is that investment in this activity is not welcome.

'Prize-winning electronic game business' is defined as the provision of services by enterprises for the playing of games between people and electronic machines with automatic prize-award programmes. It excludes certain games where the intervention of staff is needed (for instance, card games with prize-winning).

- Article 5 of Decision 32 states that this type of investment is *conditional* and is not *encouraged*. This shows that the Government is unwilling to welcome gambling programmes, although the decree itself provides a primitive framework for their potential development.
- Permits can be granted if the enterprise meets one of the following criteria:
  - (a) the investment project is in localities frequented by tourists, include four-star hotels (or higher grades) for Ho Chi Minh City and Hanoi, or three-star hotels (or higher grades) for other localities frequented by tourists, and have areas exclusively used as recreation and entertainments spots; and
  - (b) enterprises developing recreation and entertainment areas and tourist sites of large-scale, having exclusive areas for use as recreation and entertainment spots suitable to the local conditions, and being proposed by the people's committee of the province or city.
- Permits are not to be granted to enterprises operating solely in the sector of prize-winning electronic games. The operation of prize-winning electronic games must be part of a bigger project.
- The final decision must be approved by the Prime Minister.

**Decision No 91/2005/QD-BTC** of the Ministry of Finance dated 8 December 2005 provides for the regulations on financial management of business activities of games with prizes (as amended by Decision No 84/2007/QD-BTC dated 17 October 2007) ('Decision 91'). It aims at regulating the different aspects of gaming usually offered in casinos and sets out the criteria for tax revenue from these activities. The scope is larger than the scope of Decision 32 since the games designated are both electronic games with prizes (EGP) and other games with prizes (OGP).

- EGP means the type of games with prizes in which the player interacts directly with the electronic machine throughout the entire playing process and staff of the amusement and entertainment location is not permitted to intervene or participate in any form during the playing process.
- OGP means the type of games with prizes in which staff of the amusement and entertainment location provide a number of services for the player throughout the playing process such as dealing cards, or issuing and collecting chips from customers who are playing the prize games machines.

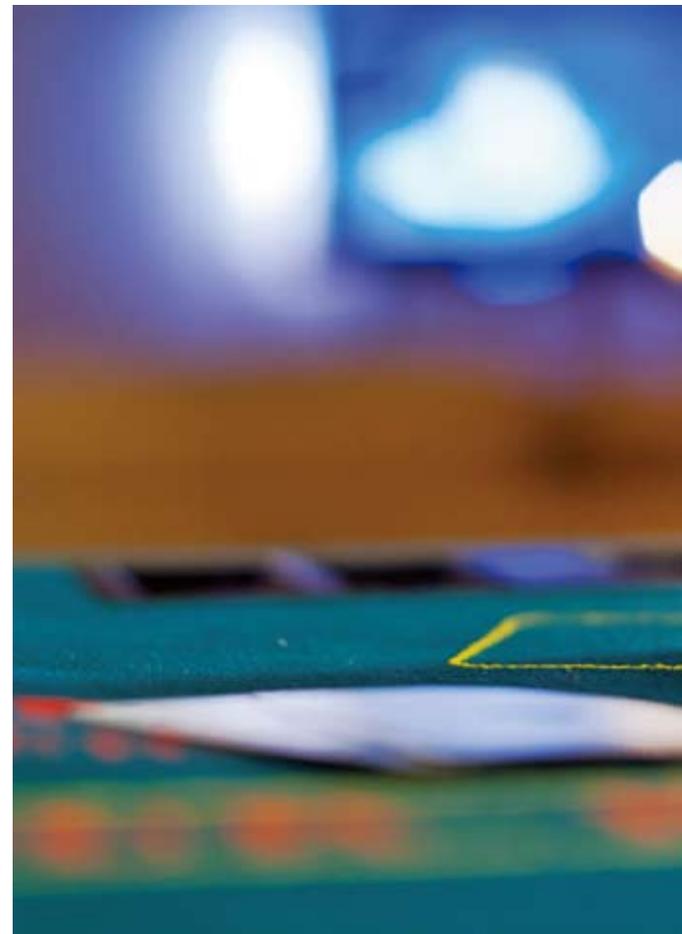
The two decisions described above form the current legal framework for prize-winning electronic games in Vietnam. Because these regulations do not address the issue of casino businesses there is not a lot of transparency. The lack of transparency allows the competent authority a great deal of discretion in appraising and licensing casino projects.

#### *Regulation of casino businesses*

The second step in Vietnam's gambling regulation efforts brought with it the hope of clarity and precision. For the first time in 2007, and then in 2009, the Government provided much-needed guidelines to implement 'casino' businesses in Vietnam.

**Announcement No 96/TB-VPCP** dated 4 May 2007 of the Government Office conveyed the conclusions of the Prime Minister regarding the proposal on development and management orientation for casino businesses in Vietnam ('Announcement 96'). Announcement 96 provides guidelines to consider when developing and managing a casino business:

- only large scale projects of general amusement and entertainment, and designed for tourism service locations with an investment capital of



- US\$4 billion or more will be permitted;
- the investor must be a foreign investor with strong financial capabilities and experienced in the business of general amusement and entertainment and tourism services, including casinos;
- Vietnamese nationals must not be allowed to play in the casino;
- the geographical area of investment must be a poor area with socio-economic difficulties or islands; and
- the country may grant licenses for one or two large-scale investment projects with sufficient technologies and management capabilities to compete with other countries.

With Announcement 96, the Government was conscious of the country's need to welcome large-scale casino projects to enhance tourism and economic development in targeted localities, but it also wanted to ensure effective protections by preventing any risk to their cultural and spiritual life.

A draft Government decree as submitted by the Ministry of Finance and released in 2009 was entitled: 'The management of casino business activities and prize-winning electronic games'. Its aim was to clarify the implementation of casino businesses in Vietnam:

- an enterprise conducting a casino business must have at least 10 years' experience;
- the minimum investment capital is regulated by the Government;
- operating electronic gaming is limited to five-star hotels (or higher); and
- only overseas Vietnamese and foreigners are allowed to gamble at the casinos.

Had this decree been issued it would have provided, for the first time, a comprehensive legal framework to foreign investors seeking to invest in casino businesses within Vietnam.

In 2011, however, the Government retreated from this approach and limited its regulations to control prize-winning electronic games only. At the moment, a new decree is being drafted but it will not regulate the casino business. Instead, it will limit its scope to 'prize-winning electronic games'.

#### *Draft decree on sports betting*

Although there are no Vietnamese-based gambling websites, Vietnamese people still bet about US\$2 billion annually on sports gambling on international websites. A draft decree released on 19 October 2010 was seen as the Government's intention to participate in the sports betting business by regulating it.

The activities covered by this draft decree are limited to:

- bets on horses and greyhound racing and prescribed sporting events – the bets must have been placed on local horses or greyhound races and international races approved by the Ministry of Finance;
- bets on certain international football matches or international football matches listed by the Ministry of Finance and the Ministry of Culture, Sports and Tourism; and
- bets on other sporting events which have been approved by the Prime Minister on a proposal by the Ministry of Finance.

Under the draft decree, investors must:

- meet certain financial, geographical and facility conditions to obtain a special approval from the Prime Minister;
- obtain several governmental authorizations, such as certain ministries (the Ministry of Finance, Ministry of Planning and Investment, Ministry of Culture, Sports and Tourism, Ministry of Public Security) and other relevant agencies;
- the minimum legal capital required is VND1000 billion (US\$50 million) for horse racecourses and VND300 billion (US\$15 million) for greyhound racing.



If the betting regulations are successful in operation, they could be extended to the other sporting activities. This experimental decree contains unclear provisions on:

- the right of foreign investors to invest; and
- businesses targeted (such as betting on international races).

The draft decree, although not passed, shows that the government is not totally opposed to establishing a framework for gambling activities, and if successful, it may presage more regulations to govern other gambling activities, such as casinos. The government has also recently disclosed it will legalize sports betting in an effort to limit the social evils caused by illegal betting businesses.

### Why Investors can Gamble on Vietnam

Vietnam does not have a developed legal framework for gambling, and it does not have a hospitable legal climate for casinos as compared with some of its neighbours.

Many Vietnamese people have long been fond of gambling. The draft decree on the betting business shows that the government may be willing to legalize certain forms of gambling in an effort to control and capitalize on what is already happening underground. It is careful, however, to limit Vietnamese nationals' access to most gaming activities by only allowing them to participate in certain sports betting activities, according to the draft decree. Ostensibly, this limitation is to protect Vietnamese citizens from bankruptcy and problem gambling. Whatever the reason, the government is fixed on maintaining this limitation, although it is still easy for Vietnamese citizens to manipulate the system and sneak into many

of the existing casinos. Perhaps the government should consider setting up an entrance levy similar to that in place at Singaporean casinos, which is a system designed to deter gambling amongst the populations who can least afford it. By allowing Vietnamese people to gamble in domestic casinos, the problem of 'foreign currency bleeding' would be eliminated instead of the current situation wherein Vietnamese funds are being spent in casinos in Cambodia and Laos.

The economic development that comes from the gambling business is knocking on Vietnam's door. If the country has gambling locations in attractive resorts in addition to rich cultural and natural landscapes, the number of tourists will increase, thereby creating thousands of jobs. The Vietnamese Las Vegas Sands project, for example, plans to create between 12,000 and 14,000 jobs in each complex. Not only will there be employment benefits, but the government will enjoy high tariff tax revenues from that it would not otherwise have access to.

Other social benefits can accrue as well, depending on the government's approach to regulation. In South Africa, casino operators are required to pay 1.5% of profits to social welfare programmes. Vietnam's government could do something similar.

Whatever the specifics, the Government needs to create a systematic and transparent legal regime to govern gambling and casinos. If Vietnam is to enjoy the amount of money represented by the Las Vegas Sands investment, there needs to be proper regulation to provide investors with certainty and specificity in completing investment procedures.

Vietnam is well poised to become a major destination for gambling business investors, but without making progress on its legal environment it may miss the opportunity.

# Financial Responsibility for Non-financial Directors



In a recent Federal Court of Australia decision, non-financial directors are now required to actively survey financial information provided by management and assess the implications of such information with a ‘questioning’ mind. This article discusses the global trend of increasing corporate board diversity, in relation to (minimum) statutory obligations that board directors have with respect to reviewing and signing off financial statements.

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In modern business life companies are actively encouraged to have a diverse board of directors, both from a social perspective (such as gender, age, ethnic and religious diversity) and a professional perspective (such as experience and skill diversity). As such, the modern boardroom represents the stakeholders of its business and the environment in which it is operating.

Concurrently with trend of increasing board diversity, it is useful to address what the core statutory obligations of a director are, irrespective of his or her professional and social background.

The common perception is that diversity on the board brings diversity of thoughts, experiences, knowledge, understanding and perspectives, which

in turn creates a fruitful environment for developing and executing successful business strategies.

One of the results of increasing *professional* board diversity is that, instead of hiring people from their own professional background such as banks and other financial institutions, various large publicly listed companies have started hiring people from different backgrounds. These include experts in the field of marketing strategy, IT, HR, accounting, finance and law.

By nature, the concept of professional board diversity will lead to an increased number of boards with members that are mainly or only specialized in a particular business area. This also may result in certain directors having limited financial knowledge and skills and (therefore) a limited understanding of the company’s financial situation. Consequently, these directors may find difficulties

in understanding the company's financial statements and related information.

### Tension

Board members with little knowledge will have no choice but to rely on information that they receive from their expert counterparts, colleagues or third party consultants such as auditors and accountants.

However, in most jurisdictions the law does not distinguish between financial literate board members and those who lack financial literacy and rely on others. Generally, each individual director is required to certify the truth and fairness of the financial statements of the company that he or she represents.

It is clear that there is a certain tension between the above mentioned statutory requirements for board members and increasing professional board diversity. After all, in a diverse board the directors may not (all) have sufficient financial knowledge, whereas they are still expected to (personally) consider and approve the company's financial statements.

### The Centro Case

The question to which extent directors can delegate responsibility and rely on others in relation to financial statements of an Australian company was addressed in the *Centro* decision, handed down by the Federal Court of Australia on 30 June 2011.<sup>1</sup>

#### The facts

The Centro Group ('Centro') is an Australian-based and listed retail property giant that owns and operates shopping centres in Australia, the United States and New Zealand.

Centro's success story started in the early 90s, from where it managed to realise considerable growth figures over the next 15 years, attracting both individual investors (more than 20,000) and institutional investors, amongst which various large international banks such as ANZ, JP Morgan Chase and RBS.

In 2006 and 2007, Centro made a heavily leveraged A\$9 billion expansion into the American shopping centre market. At that time, the Centro Group involved a complex structure of more than 100 corporate entities, both companies and trusts.

At the end of 2007, Centro went into financial free fall when it revealed to the public that it could not refinance an A\$3.9 billion debt that was accrued for its expansion in America. It became clear that, being at its height, the American subprime crisis had pushed up borrowing costs after which Centro's credit line had dried up. As a result Centro's share price fell dramatically – it dropped almost 90% in only two days – and the

company almost went into bankruptcy.

After the smoke had cleared in October 2009, the Australian Securities and Investments Commission (ASIC) started proceedings against Centro's former CEO (the only executive director on the board), six non-executive directors and its Chief Financial Officer (not being a statutory director), seeking the court's declaration that these persons had breached their statutory duty of care and diligence owed to Centro and its Group entities that were involved.

#### ASIC's claim

According to ASIC, the directors had breached various financial reporting obligations under Australia's Corporations Act 2001 (Cth), in particular: (1) the requirement that financial reports comply with accounting standards; (2) they give a true and fair view of the financial position and performance of a company; and (3) the requirement to include certain information in the annual directors' report.<sup>2</sup>

In this respect, ASIC claimed that the defendants had overlooked the fact that Centro's 2006-07 consolidated and audited financial statements misclassified approximately A\$2 billion in debt as *non-current liability* (where the amount should have been classified as *current liability*). In



addition, ASIC claimed that the defendants had failed to disclose US\$1.75 billion in guarantees as post-balance date events.

To fortify its position, ASIC pointed out that the directors were involved in and were fully aware of its recent American acquisitions – the biggest in the company’s history – and the fact that they were financed with short term debt. Hence, according to ASIC’s lawyer, all ‘they needed to do was to apply the knowledge that they had obtained, or ought to have obtained from being involved in the process, and apply it to their reading of the accounts’.<sup>3</sup>

#### *Directors’ defence and CFO admissions*

On their part, the defendant directors argued that they had taken all reasonable steps to secure compliance with their obligations under the Act and to prevent errors in the financial statements. They highlighted in the first place that a special directors committee (‘board audit and risk management committee’) had been in place. In addition, they argued that they had relied – and could rely – on review of the financial statements by Centro’s management and external auditors.

Separately, and before the hearings in the *Centro* case started, the former CFO – as said not a director – had already admitted that he had

not fulfilled certain statutory obligations in his capacity as a company officer. As such, the court concentrated on the arguments brought forward by the directors.

#### *Judgment*

In his 189-page judgment, Justice John Middleton of the FCA kicked off with a clear statement at [8]:

“By way of briefest summary, I make the following comments regarding the directors. The directors are intelligent, experienced and conscientious people. There has been no suggestion that each director did not honestly carry out his responsibilities as a director. However, I have found, in the specific circumstances the subject of this proceeding, that the directors failed to take all reasonable steps required of them, and acted in the performance of their duties as directors without exercising the degree of care and diligence the law requires of them.”

He further comments (at [12]) that (the directors):

“In the light of the significance of the matters that they knew, they could not have, nor should they have, certified the truth and fairness of the financial statements, and published the annual reports in the absence of the disclosure of those significant matters. If they had understood and applied their minds to the financial statements and recognised the importance of their task, each director would have questioned each of the matters not disclosed. Each director, in reviewing financial statements, needed to enquire further into the matters revealed by those statements.”

Based on the above grounds *all* directors were found to have breached their statutory obligations, regardless whether they had been executive or non-executive, chief executive or a member of the audit committee.

In this respect, Middleton J pointed out that: (1) a board should include persons with varied wisdom, experience and expertise, drawn from different commercial backgrounds; (2) however, each director still has a duty greater than that of simply representing a particular field of experience or expertise; and as such, (3) a director is not relieved of the duty to pay attention to the company’s affairs which might reasonably be expected to attract inquiry, even outside the area of his/her expertise.



### Implications of the Centro Judgment

After handing down the *Centro* decision, a broad discussion on its implications started in Australia and, albeit to a lesser extent, on an international level.

Some fear that directors, especially those with a non-financial background, will be discouraged from joining boardrooms as a result of the decision. They indicate that *Centro*'s complex structure, the various professional backgrounds of the directors, the fact that *Centro*'s auditor was a *big four* audit firm with particular expertise in dealing with these types of structures, should have been taken (more) into account.<sup>4</sup>

Others emphasize that the facts and circumstances of the *Centro* case are unique and the judgment contains a one-off decision, simply applying existing law to a very specific case.

Either way, the *Centro* decision clearly fits into a development in Australian and international jurisprudence over the past years, requiring directors to have certain minimum knowledge and skills. No director is expected to be an expert in each aspect of a company's business, but, particularly in the financial area, a director is expected to have at least basic knowledge, so he or she is able to understand and appropriately analyse financial reports he or she is required to review and sign off.

Hence, so much for board diversity and directors with different backgrounds? Probably not. But it is to be noted that even for directors

with no financial background a minimal financial literacy is required.

Although financial knowledge alone is not enough to prevent errors. Each director is therefore also required to actively survey (financial) information provided by management and external advisors and to assess the implications of such information independently and, as rightfully expressed by the court, with a 'questioning mind'. This equally applies to all directors, even if finance is not in their portfolio, and is a responsibility that no director can delegate to others.

#### Notes:

- <sup>1</sup> *ASIC v Healey* (2011) 278 ALR 618; [2011] FCA 717.
- <sup>2</sup> See Corporations Act 2001 (Cth), ss 344(1), 295A, 296, 297 and 298.
- <sup>3</sup> See Leonie Wood, 'Boards Watching the Centro Case', *Sydney Morning Herald*, 23 May 2011.
- <sup>4</sup> See 'Boardroom Exodus: Fallout from the Centro Case', interview of 19 July 2011 with Michael Peters, lecturer in Business Law and Taxation at the Australian School of Business: <http://knowledge.asb.unsw.edu.au>.

# Doing Business in the Philippines: Capital (Re) Defined and Analyzed



The Philippine Supreme Court's interpretation of the term 'capital' decision in *Gamboa v Teves* has far-reaching implications to the national economy and to future generations of Filipinos. This article examines the jurisprudence behind the decision and its effect on foreigners doing business in the Philippines.

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In the aftermath of the recent decision of the Philippine Supreme Court and a more vigilant enforcement of corporate and tax laws, business environments have changed dramatically in the Philippines. Foreign investors are now very meticulous in analyzing and understanding laws that are applicable to them before they actually invest. The court has affirmed that its interpretation of the term 'capital' has far-reaching implications to the national economy and to future generations of Filipinos.

Recently, the court resolved a petition<sup>1</sup> on the legal issue of whether the term 'capital'<sup>2</sup> in s 11, Art XII of the 1987 Philippine Constitution refers to the total outstanding capital stock of a corporation. The company involved was

Philippine Long Distance Telephone (PLDT), a public utility company. The court further stated that the resolution will determine whether Filipinos are masters or second class citizens in their own country, or whether Filipinos or foreigners will have *effective control* of the national economy.

In defining the term, the court declared that such opportunity, not only benefits the litigants, but more significantly all Filipino people, to ensure, in the words of the Constitution, 'a self-reliant and independent national economy effectively controlled by Filipinos'.<sup>3</sup> It further acknowledged that, in the light of vague and confusing positions taken by government agencies on this purely legal issue, present and future foreign investors in the country deserve, as a matter of basic fairness, a categorical ruling from the court on the extent of their participation in the capital of public utilities and other nationalized businesses.

Section 11, Art XII (National Economy and Patrimony) of the 1987 Constitution mandates the Filipinization of public utilities, to wit:

No franchise, certificate, or any other form of authorization for the *operation of a public utility shall be granted except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines, at least sixty per centum of whose capital is owned by such citizens*; nor shall such franchise, certificate, or authorization be exclusive in character or for a longer period than fifty years. Neither shall any such franchise or right be granted except under the condition that it shall be subject to amendment, alteration, or repeal by the Congress when the common good so requires. The State shall encourage equity participation in public utilities by the general public. *The participation of foreign investors in the governing body of any public utility enterprise shall be limited to their proportionate share in its capital, and all the executive and managing officers of such corporation or association must be citizens of the Philippines.* (emphasis added)

The above provision substantially reiterates s 5, Art XIV of the 1973 Constitution and s 8, Art XIV of the 1935 Constitution; thus, this purely legal issue is said to have remained unresolved for over 75 years. The provision is an express recognition of the sensitive and vital position of public utilities both in the national economy and for national security.<sup>4</sup> The evident purpose of the citizenship requirement is to prevent aliens from assuming ‘control of public utilities’, which is said to be inimical to national interest.<sup>5</sup> This specific provision explicitly reserves to Filipinos control of public utilities, pursuant to an overriding economic goal of the 1987 Constitution: to ‘conserve and develop our patrimony’<sup>6</sup> and ensure a self-reliant and independent national economy ‘effectively controlled’ by Filipinos. Therefore, any foreign juridical entity desiring to invest in the Philippines is mandated to meet the minimum nationality requirement prescribed therein.

### Prior Interpretation

Before such resolution, the Securities and Exchange Commission (SEC), a government agency primarily responsible for implementing the Corporation Code of the Philippines<sup>7</sup> (the ‘Code’), and which also has the initial responsibility of ensuring compliance with the Constitution’s foreign equity restrictions as regards nationalized activities,<sup>8</sup> had consistently ruled and interpreted,

even prior to the 1987 Constitution, that both common and preferred voting and non-voting shares are properly considered in determining outstanding capital stock. The nationality composition thereof, is apparently based on s 137 of the Code which defines ‘outstanding capital stock’ as the total shares of stock issued under binding subscription agreements to subscribers or stockholders, whether fully or partially paid, except treasury shares. The same section does not distinguish between common and preferred shares, or voting or non-voting classes of shares in a corporation.

In the same vein, s 6 of the Code classifies shares as common or preferred, and either of which may have such rights, privileges or restrictions as may be stated in the charter of the corporation, with a proviso that ‘no share may be deprived of voting rights except those classified and issued as “preferred” or “redeemable” shares’, and there must always be a class or series of shares which have complete voting rights, which is the common shares. Unless provided for in the corporation’s charter and stated in the certificate of stock, each share is equal in all respects to every other share. Thus, preferred shareholders may be given preference in the distribution of the assets of the corporation in case of liquidation. In the distribution of dividends, there may be voting or non-voting, or such other preferences as may be stated in its charter so as not to violate the Code.

Section 6 of the Code further states that where the charter of the corporation provides for non-voting shares, the holders of such shares must nevertheless be ‘entitled to vote’ on the following matters:

1. an amendment of the charter or articles of incorporation;
2. an adoption and amendment of by-laws;
3. a sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of the corporate property;
4. an incurring, creating or increasing bonded indebtedness;
5. an increase or decrease of capital stock;
6. a merger or consolidation of the corporation with another corporation or other corporations;
7. an investment of corporate funds in another corporation or business; and
8. a dissolution of the corporation.

In rendering legal opinion, the SEC cited Fletcher, Cyc Corps and US jurisprudence, as Philippine corporate law comes from the common law system of the United States. ‘Capital’ as applied to corporations, was defined by the SEC by citing *United Grocers Ltd v US F Supp* 834,<sup>9</sup>

as the money, property or means contributed by stockholders ... and generally implies that such money or property or means have been contributed in payment for stock issued to the contributors. The term 'capital' is also used synonymously with 'capital stock', meaning the amount subscribed and paid-in and upon which the corporation is to conduct its operation.<sup>10</sup> As held in *Haggard v Lexington Utilities Co*,<sup>11</sup> the capital stock of a corporation is the 'amount of paid-in by its stockholders in money, property or services' with which it is to conduct its business, and 'it is immaterial how the stock is classified, whether common or preferred'.

### The Decision

Thus, the court declared that the term 'capital' in s 11, Art XII of the Constitution refers 'only to shares of stock entitled to vote in the election of directors', and therefore only to common shares and voting preferred shares, and 'not to the total outstanding capital stock'. In short, the term 'capital' in s 11 'refers only to shares of stock that can vote in the election of directors'.

The rationale of the court's decision is that one of the rights of a stockholder is the 'right to participate in the control or management of the corporation'. This is exercised through a shareholder's vote in the election of directors because it is the board of directors that controls the affairs or manages the assets of the corporation. However, such right may be waived by preferred shareholders on the theory that they are merely investors in the corporation to earn a dividend just like bondholders. They are thus excluded from any control or management of the corporation, or deprived of their right to vote in the election of directors. Under the Code, only preferred or redeemable shares may be deprived of their right to vote. Common shares cannot be deprived of the right to vote in any corporate meeting, and any provision in the charter restricting the right of common shareholders to vote is invalid.

In reinforcing this interpretation, the court referred to the definition of 'a Philippine national' in s 3 of the Foreign Investments Act of 1991 (FIA),<sup>12</sup> to wit:

a. The term 'Philippine national' shall mean a citizen of the Philippines; or a domestic partnership or association wholly owned by citizens of the Philippines; or a corporation organized under the laws of the Philippines of which at least sixty percent (60%) of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines; ... (Emphasis added)

The court also referred to the Implementing Rules and Regulations of the FIA, to wit:

b. ... .

Compliance with the required Filipino ownership of a corporation shall be determined on the basis of outstanding capital stock whether fully paid or not, *but only such stocks which are generally entitled to vote are considered.*

For stocks to be deemed owned and held by Philippine citizens or Philippine nationals, mere legal title is not enough to meet the required Filipino equity. Full beneficial ownership of the stocks, *coupled with appropriate voting rights is essential. Thus, stocks, the voting rights of which have been assigned or transferred to aliens cannot be considered held by Philippine citizens or Philippine nationals.*

*Individuals or juridical entities not meeting the aforementioned qualifications are considered as non-Philippine nationals.* (Emphasis added)

Because the previous definition of 'capital' may be said to have been 'locally redefined'



by the court, in applying the new definition of 'capital', the PLDT apparently exceeded the 40% foreign equity limit with a remarkable finding that Filipinos earn only 1/70 of the dividends that the PLDT common shares earn.

### Dissenting Opinion

To harmonize the 'sixty percent of the capital stock outstanding and the entitlement to vote (that is owned and held by citizens of the Philippines' in the FIA with s 11, Art XII of the Constitution, the dissenting opinion<sup>13</sup> suggests that since the Constitution only requires Filipinos to own 60% of capital, the phrase 'entitled to vote', as enacted in the FIA, should not be interpreted to be limited to the election of members of the board only, since non-voting preferred shareholders also have voting rights under s 6 of the Code on key fundamental corporate matters. The minority of the court said that, in fact, the FIA does not state entitled to vote 'in the management of the affairs' or 'in the election of directors' of the corporation. It further asserted that control is an inherent right of ownership, preferred shareholders included. Undeniably, s 6 of the Code gives the right to vote to non-voting stockholders on fundamental and major corporate decisions. On this point, the 'non-voting' shares also exercise control, together with the voting shares.

The minority viewed the redefined 'capital' to have the effect of removing the nationality restriction on the non-voting shares which gives rise to a situation wherein foreigners could own the entire preferred non-voting shares, aside from the 40% in common stocks in the ownership of public utility companies. Thus, applying the *ponencia's* new definition of 'capital' would be more anomalous as it will result in the foreigners' beneficial ownership over corporations qualified to own land in the Philippines.

### Analysis

Pursuant to s 23 of the Code, 'corporate powers of all corporations organized in the Philippines are exercised, all business conducted and all property of such corporations controlled and held by the board of directors. Well settled is that, except in close corporations,<sup>14</sup> stockholders have no right to manage the operation, conduct the business, and control the assets of the corporation unless they are also elected directors. The stockholders may have all the profits but must turn over the complete management of the corporation to their representatives and agents called directors.'<sup>15</sup>

The fact that only common or voting shareholders elect the members of the board does not mean that such shareholders control the corporation. The control exercised by the board over the corporation, by virtue of the corporate entity doctrine, is totally distinct from the power to elect the members thereof. Thus, with due respect to the majority of the court, the fear that PLDT is being controlled by foreigners is only imaginary. There was no issue on the participation of foreigners in the board of directors of PLDT. The board is undeniably controlled by Filipinos, and more than 60% at that. Admittedly, there are only two foreigners out of the 13 members therein.

The declaration of a cash dividend was definitely approved among the Filipinos on the board of PLDT, not by the two foreigners alone as mandated by s 43 of the Code. Who is then to blame if they received only a small portion of the dividends? Would the decision of the court reverse the situation? The considered opinion of the author is that it will not. Investors in industries requiring huge investments like a telephone company always have 'ways to skin a cat' so to speak. As a matter of fact, preferred shares are now in the process of being redeemed and that there was an attempt to change PLDT's charter to remedy the situation.

On the other hand, the effect of the decision, if not reconsidered, has pros and cons. Owning land in the Philippines and other foreign restricted businesses may now be openly funded and beneficially owned by foreigners. By organizing a



corporation composed of 90% (or more) preferred shares to be wholly-owned by foreigners, and 10% (or even less) common shares to be owned 60% by Filipinos and 40% by foreigners, with three Filipino directors and two foreigners. The Philippines does not have to amend its Constitution to let foreigners fund a local corporation to acquire land without fear of violating the Anti-Dummy Law.<sup>16</sup> Since foreigners have the money and/or technology, they can dictate the terms of the preferred shares in a 'take it or leave it' situation and just contract Filipinos who are willing invest 6% or less in the proposed corporation.

Furthermore, the decision of Filipino directors may be vetoed by the preferred foreign stockholders when undergoing key fundamental corporate matters, pursuant to s 6 of the Code, like an amendment of the charter of the corporation; the sale, lease, mortgage, pledge or other disposition of all or substantially all of the corporate property; the increase or decrease of capital stock; the merger or consolidation with other corporations; the investment of corporate funds in another corporation or business; and even in the dissolution of the corporation, all of which require the approval of two-thirds of the outstanding capital stock, as defined under s 137 of the Code.

Interestingly, in this globalization epoch,

the court somehow alienated the Philippines by providing a local definition of 'capital' instead of adopting its internationally accepted legal or business definition. With a new definition, financial statements would have to disclose voting stockholders separately from the non-voting ones, which is not normally shown in other jurisdictions. Further, there might be a problem of classifying non-voting shareholders as owners, as only voting ones are considered owners in determining foreign equity in a corporation. These are diverse from the Philippine Financial Reporting Standards on the matter, and International Accounting Standards which regulators are urging local corporations to adopt.

### Conclusion

Indeed, the new interpretation of the term 'capital' or as redefined by the court has far-reaching implications to the national economy and to future generations of Filipinos. The court's justification of the new definition is to ensure a self-reliant and independent national economy effectively controlled by Filipinos. Its objective is to ensure that Filipino stockholders will have the right to participate in the control or management of a corporation. The case would certainly determine whether Filipinos or foreigners will have *effective control* of the national economy.

### Notes:

<sup>1</sup> *Gamboa v Teves* GR No176579, 28 June 2011.

<sup>2</sup> This term appears also in s 2, Art XII of the Constitution on co-production and joint venture agreements for the development of natural resources; in s 7, Art XII on the ownership of private lands; in s 10, Art XII on the reservation of certain investments to Filipino citizens; in s 4(2), Art XIV on the ownership of educational institutions; and in s 11(2), Art XVI on the ownership of advertising companies.

<sup>3</sup> s 19, Art II, 1987 Constitution as cited in *Gamboa v Teves*, *op cit*.

<sup>4</sup> J Bernas, *The 1987 Constitution of the Republic of the Philippines: A Commentary* (1996) p 452.

<sup>5</sup> H De Leon, *Philippine Constitutional Law* (Vol 2, 1999) p 848.

<sup>6</sup> Preamble, 1987 Constitution.

<sup>7</sup> Batas Pambansa Blg 68, effective 1 May 1980.

<sup>8</sup> Some laws requiring Filipinos to own at least 60% of the 'capital' are: (1) the acquisition of land, a constitutional provision; (2) Regulation

of Award of Government Contracts or RA No 5183; (3) Philippine Inventors Incentives Act or RA No 3850; (4) Magna Carta for Micro, Small and Medium Enterprises or RA No 6977; (5) Philippine Overseas Shipping Development Act or RA No 7471; (6) Domestic Shipping Development Act of 2004 or RA No 9295; (7) Philippine Technology Transfer Act of 2009 or RA No 10055; and (8) Ship Mortgage Decree or PD No 1521.

<sup>9</sup> Cited in 11 Fletcher, Cyc Corp, 1986, rev vol, s 5080 at 18, as cited on 28 June 2011 (dissenting opinion of Velasco J).

<sup>10</sup> 11 Fletcher, Cyc Corp 1986 rev vol s 5079 at 17.

<sup>11</sup> 260 Ky 251, 84 SW 2d84, cited in Fletcher, Cyc Corp 1958 rev vol, s 5079 at 17.

<sup>12</sup> Republic Act No 7042.

<sup>13</sup> Dissenting opinion of Velasco J promulgated on 28 June 2011.

<sup>14</sup> See Title XII, Corporation Code.

<sup>15</sup> *Ramirez v Orientalist Co*, 38 Phil 634 (1918).

<sup>16</sup> Commonwealth Act, s 108.

# The New Brazilian Labour Law: Providing Clarity to Remote Workers?



Carolyn A Knox



Carolina Tavares Rodrigues

The amendment to Brazil's Labour Law seeks to cover employees who render services to the employer remotely. This article argues that the amendment merely clarifies the scope of the employment relationship as it relates to remote work and the need for employers to review remote employee job duties and responsibilities to avoid overtime liability.

## Carolyn A Knox

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On 15 December 2011, the Brazilian Legislature enacted Law No 12,551, an amendment to Article 6 of the Brazilian Labour Law (CLT). The purpose of the amendment was to clarify that coverage of Article 6 extends to employees who do not work at an employer's facility or office, but rather render services to the employer remotely. A remote worker would include positions or job duties such as outside service representatives and employees who work from their homes or office suites not sponsored or

paid for by the employer. The CLT does not include a list of the types of positions contemplated by the amendment and it is likely that a definition of 'remote worker' will be developed through future litigation. Due to the Labour Tribunal's traditional interpretation of the CLT to find coverage for a worker, the terms 'employee's home', 'work carried out distantly' and 'remote worker' will likely be interpreted broadly.

## Scope of Law No 12,551/2011

Contrary to recent articles published in the international press, this law does not regulate, or even mention, overtime work or on-call duty and related compensation.

In our opinion, this law simply aims to clarify that there is no difference between individuals who work inside the employer's facilities and those who work remotely. We understand that

it resolves the question of whether the remote work would be inconsistent with the employee's submission to the employer's supervision (subordination) – which is required under the CLT to form an employment relationship. To date, the controversies have developed over an employer's reduced ability to control the effectiveness of work performed by remote employees, resulting in repeated litigation. From the beginning, courts have been inclined to rule that subordination (an employment relationship) exists, while the eligibility for overtime remains a question to be decided on a case-by-case basis, depending on actual mechanisms to control work hours.

One could argue that the new Law is redundant. Article 3 of the CLT, defining the statutory employment relationship, does not include a definition of the place of work within its requirements. If a worker can prove effective administrative supervision by the employer, the CLT already provides a sufficiently solid framework to acknowledge their legal subordination.

#### Discussions on Interpretation or Extension

Although we consider the scope of the Law to be clear, many discussions have arisen on its interpretation. The President of the Superior Labour Court mentioned, in interviews with journalists, that the enactment of this law could eventually lead to the review of case law on overtime work and on-call duty.

#### On-call Duty and Precedent No 428 of the Superior Labour Law

As a result of the discussions regarding interpretation of Law No 12,551, the possibility of review of Precedent No 428 of the Superior Labour Law, dealing with on-call duty, was proposed.<sup>1</sup> However, at the end of the review session, which took place on 6 February 2012, no amendment to the Precedent was approved.

Precedent No 428 states that the mere use of communication devices by an employee, such as pagers or mobile phones, does not characterize on-call duty per se (or the need for compensation for same). During on-call duty, the employee is entitled to an additional payment equivalent to one-third of their hourly base wage. In the event the employee actually works during this period (eg answers a call), he/she will be entitled to compensation for overtime (and, during this period, the additional payment for on-call duty will not be due).

In our opinion, Precedent No 428 establishes the most accurate, practical and realistic position on the issue of on-call duty because it determined that no compensation is due to employees who have no limitation on their mobility. It seems unreasonable that an employee would be entitled to any additional compensation if the on-call duty poses no limitation on their mobility and enjoyment of their time off for leisure and rest. Conversely, compensation for on-call duty seems to be reasonable if limitations do exist.



### Control of Working Hours

Another issue that has been discussed as a result of Law No 12,551/2011 is the need to control working hours of employees who render services remotely. In our opinion, 'control' will depend on the activity carried out by the employee and the way services are provided to the employer. The employee will be considered subject to a fixed working schedule, and, thus, entitled to compensation for overtime only if the company effectively controls the employees' working hours.

There is no universal rule in this regard and interpretive case law has not changed as a result of the enactment of Law No 12,551 – at least, as of the date of writing this article. It is necessary to examine the means and methods of the remote work in order to verify whether the employee should be considered subject to a fixed working schedule.

In fact, in a decision issued on 25 January 2012, the 73rd Labour Court in Rio de Janeiro ordered Nextel Telecommunications Ltd to pay overtime and night shift compensation to an employee who worked remotely as a sales representative after finding that Nextel had (or should have had) sufficient control over the employee to enforce a fixed work schedule that generally avoided overtime. Claiming he did not have a set work day, the employee reported that he worked five days per week from 7am to 9pm and his day often extended to 11pm due to travel. He also claimed to work on weekends and holidays. Disputing that any overtime compensation was due, Nextel argued that the employee worked beyond the scope of what was required and that the company was not able to control his hours. The court held that: (1) Law No 12,551 eliminated the distinction between work performed at Nextel's premises and work performed remotely for purposes of

establishing that the employee was subordinated to Nextel's control and supervision; and (2) the use of modern technology by Nextel such as cell phones, computers and email provided the necessary means for personal and direct command, control and supervision of the employee and others. Simply put, Nextel failed to manage the employee's work hours thereby facilitating the claim for overtime compensation.

### What Does This Mean for Employers?

Although the enactment of Law No 12,551 merely clarifies the employment relationship between an employer and workers who perform services for the employer remotely, employers should take the time to identify those employees who work remotely or often perform services away from the employer's main facility (eg through the use of mobile phones and computers). Supervisors should review remote employee job duties and responsibilities, and determine how working hours can be managed and reported. Proactively identifying circumstances where employees routinely work longer hours (but are not paid overtime compensation) or where employees do not provide their supervisor with timesheets or other methods to track working time, will allow employers to institute tighter controls on work time management or adjust job duties and responsibilities to avoid overtime liability.

#### *Note:*

- <sup>1</sup> Although Precedent No 428 is not binding law, it is the result of a consensus of interpretation by the courts on the parameters of on-call duty. A decision issued contrary to the Precedent would likely be reversed on appeal.

# Is this the End of Banking Secrecy?



Cristina de Andrade Salvador



William L Blum



Robert Ladislav

**The Foreign Account Tax Compliance has given rise to many complications for those in the global financial community. This article examines how compliance is in direct conflict with the Brazilian Constitution, namely the rights to privacy and private data protection.**

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**William L Blum**  
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**Robert Ladislav**  
Counsel, Soloman Blum Heymann LLP

Enacted in the United States over two years ago, on 18 March 2010, the Foreign Account Tax Compliance (FATCA) has given rise to many complications for its acceptance and ultimately stirred the global financial community.

Basically, this law requires non-US financial institutions to report their offshore accounts and security arrangements held by US-based customers. In US parlance, these financial institutions are referred to as Foreign Financial Institutions or 'FFIs'. In other words, under FATCA, FFIs (eg, commercial banks, investment banks, hedge funds, insurance companies, and the like) are encouraged to formally enter into an agreement with the US Internal Revenue Service (IRS). In so doing,

information about their customers is required to be transferred, eventually breaking their banking secrecy. Enforcement of FATCA is accomplished by subjecting certain payments to a 'non-compliant' FFI to 30% withholding of US tax. The types of payments potentially subjected to this withholding include US source dividends and interest, gross proceeds from the sale of property that produce dividends and interest, royalties, legal settlements and litigation awards, rents for real property located in the US, insurance premiums or proceeds from US sources, and sponsorship and guarantee fees from US sources.

In addition, FATCA also requires non-financial foreign entities (NFFEs) to provide the US payer of such funds with the name, address, and US tax identification number of each substantial US owner of the NFFE or a certification that the NFFE does not have any substantial US owners. There is an exception for certain NFFEs, for example, a publicly traded company or an affiliate thereof. If the NFFE does not comply, 30% withholding of US tax will be required on the payment.

This law applies to all US individuals and legal

entities that are customers of these FFIs, and US owners of these NFFEs, regardless of whether or not these parties currently reside in the US.

Though effective from January 2013 onwards, many financial institutions, foreign governments and professionals have already taken a stance against this law. Nevertheless, non-compliance will result in the 30% withholding tax on certain payments as previously described.

The objectives of this new law are worth highlighting, to wit:

1. to curb omission of revenues from foreign bank accounts from US tax returns, thus requiring their holders to pay the US taxes levied thereon;
2. to prevent tax evasion and money laundering related to funds flowing through unreported foreign entities; and
3. to enrol foreign banks and advisors in IRS enforcement efforts.

On account of the foregoing, we should point out that FATCA is part of a *globalized* taxation and inspection environment. We therefore observe that as the domestic economies' globalization process becomes stronger, double taxation and tax evasion issues are more likely to come up. Moreover, as massive international capital flows, and the number of taxpayers who earn income abroad grows, so does the risk of tax evasion creating serious concerns by States victimized by this process.

While cooperation among the tax administration authorities through bilateral or multilateral initiatives is critical to reducing tax evasion, the internal legal systems and responsible agencies in each State are not always equipped to respond to sophisticated efforts at tax evasion.

Brazil will most likely take a firm position with respect to the FATCA requirements before they become effective, especially relating to bank secrecy, since this concept is enshrined in the Brazilian Constitution. We note that Brazil is a signatory to a large number of international treaties. Bilateral direct assistance or legal cooperation agreements which require the furnishing of banking data of people under investigation is to be provided, subject to certain conditions being fulfilled. The request for banking information from within Brazil is required to be submitted by a competent authority in the country of origin and rendered justifiable on account of civil or criminal investigation. This is so because the Brazilian Constitution establishes that banking secrecy is among the rights to privacy and private data protection (as provided for in article 5, items X and XII of the Federal Constitution). FATCA is in direct conflict with these terms as it imposes a



penalty for non-compliance with its requirements, and pays little heed to other countries' concerns compared with the importance and significance of banking data confidentiality.

We should also add that UBS, a Swiss bank, along with the Swiss government, has already faced a serious problem with the US. In early 2009, UBS entered into a deferred prosecution agreement with the United States Department of Justice (DOJ), in which it agreed to provide identifying information for certain US account holders, and pay a heavy fine. Despite intervention by the Swiss government, and appeals by account holders, UBS did ultimately turn over some identifying information of certain US account holders to the IRS.

In the deferred prosecution agreement the DOJ found, and UBS admitted, that UBS had systematically violated US laws from at least 2000 through to 2008 by assisting US individuals in concealing Swiss bank accounts and the income earned on these accounts from the IRS, through such tactics as establishing accounts in the names of nominees or sham entities.

Ultimately, UBS had to agree to provide identifying information for more than 4000 bank accounts owned by US account holders, leaving both the Swiss government and the US tax authorities relatively pleased.

To conclude, FATCA is an attempt by the US government to curb tax evasion that is costing the country's economy billions of dollars in unpaid taxes. However, the compliance costs of FATCA for foreign financial institutions and non-financial entities will be significant, and many such institutions, in some cases together with their governments, are continuing to try to pressure the US to ease these rules.

# Members' Notes

## Vinay Ahuja

We have recently launched our DFIDL India desk to concentrate on all outbound investments by Indian corporations in the ASEAN region. As per the news reports, ASEAN has emerged as a significant destination for India's outward FDI, amounting to US\$12 billion, or 27% of the overall investments of US\$43.9 billion, in 2010-11. I am the head of the DFIDL India desk and senior adviser to the regional M&A practice group. I specialize in investment law, general corporate law and legal and practical aspects of corporate and commercial cross border transactions in the ASEAN region. DFIDL is the first leading full service international law firm specialized in emerging markets with pan-regional legal and tax expertise developed throughout the Mekong region (Cambodia, Lao PDR, Thailand, Myanmar, Vietnam), Bangladesh, Indonesia and Singapore (there are 11 offices in Asia with 250 lawyers).

## Suresh Divyanathan

After 11 years at my previous firm, I joined Oon & Bazul LLP as head of the commercial arbitration practice group on 3 January 2012. I continue to remain Chairman of the IPBA's Membership Committee. I look forward to continued interaction with all IPBA members and to doing my best to grow IPBA membership!

## Zhi Qiang Li

Mr Zhi Qiang Li became a Chinese lawyer in 1990. He is the founding partner of Jin Mao PRC Lawyers. He is the former vice chairman of the IPBA Legal Practice Committee. He provided legal services for the Shanghai Disneyland project in relation to its syndicated loan. He was recognised as one of the Top 25 legal advisors of IPO deals in 2010 in China.

## Cristina A Salvador

We presented the topic *Mato Grosso state: a great deal!* at a seminar held in late August in the city of Cuiabá, Mato Grosso (MT). The seminar allowed us to visit certain public agencies and it has reaffirmed our understanding that many opportunities are available in the state. Set out below is list of these opportunities:

1. mining (technology investments);
2. soybean production (equipment and silos);
3. other commodities: corn and cotton;
4. fish farming (improvement process);
5. logistics: alternatives, new routes and prospecting areas;
6. carbon credits;
7. energy (solar and biomass) and solid waste;
8. rural tourism;
9. hospitality services: *Pantanal*; *Chapada dos Guimarães* and *Águas Técnicas*;
10. bids: airport; *Verdão Arena*; two training centers and one amusement park known as 'Fun Park'.

The tax incentives stemming from Cuiabá Dry Port are also worth mentioning. In view of all this, our task consists of disseminating the various business development options and considering the real need for ongoing legal advisory services, particularly on behalf of farmers. We thus remain in constant contact with the MT state government agencies that welcomed us so warmly, as well as our partners in the region, who introduced to us these important and timely opportunities.



# An Invitation to Join the Inter-Pacific Bar Association

The Inter-Pacific Bar Association (IPBA) is an international association of business and commercial lawyers who reside or have an interest in the Asian and Pacific region. The IPBA has its roots in the region, having been established in April 1991 at an organising conference in Tokyo attended by more than 500 lawyers from throughout Asia and the Pacific. Since then it has grown to over 1400 members from 65 jurisdictions, and it is now the pre-eminent organisation in the region for business and commercial lawyers.

The growth of the IPBA has been spurred by the tremendous growth of the Asian economies. As companies throughout the region become part of the global economy they require additional assistance from lawyers in their home country and from lawyers throughout the region. One goal of the IPBA is to help lawyers stay abreast of developments that affect their clients. Another is to provide an opportunity for business and commercial lawyers throughout the region to network with other lawyers of similar interests and fields of practice.

Supported by major bar associations, law societies and other organisations throughout Asia and the Pacific, the IPBA is playing a significant role in fostering ties among members of the legal profession with an interest in the region.

## **IPBA Activities**

The breadth of the IPBA's activities is demonstrated by the number of specialist committees. All of these committees are active and have not only the chairs named, but also a significant number of vice-chairs to assist in the planning and implementation of the various committee activities. The highlight of the year for the IPBA is its annual multi-topic four-day conference, usually held in the first week of May each year. Previous annual conferences have been held in Tokyo (twice), Sydney (twice), Taipei, Singapore (twice), San Francisco, Manila, Kuala Lumpur, Auckland, Bangkok, Vancouver, Hong Kong, New Delhi, Seoul, Bali and Beijing attracting as many as 1000 lawyers plus accompanying guests.

The IPBA has organised regional conferences and seminars on subjects such as Practical Aspects of Intellectual Property Protection in Asia (in five cities in Europe and North America respectively) and Asian Infrastructure Development and Finance (in Singapore). The IPBA has also cooperated with other legal organisations in presenting conferences – for example, on Trading in Securities on the Internet, held jointly with the Capital Market Forum.

IPBA members also receive our quarterly *IPBA Journal*, with the opportunity to write articles for publication. In addition, access to the online membership directory ensures that you can search for and stay connected with other IPBA members throughout the world.

## **APEC**

APEC and the IPBA are joining forces in a collaborative effort to enhance the development of international trade and investments through more open and efficient legal services and cross-border practices in the Asia-Pacific Region. Joint programmes, introduction of conference speakers, and IPBA member lawyer contact information promoted to APEC are just some of the planned mutual benefits.

## **Membership**

Membership in the Association is open to all qualified lawyers who are in good standing and who live in, or who are interested in, the Asia-Pacific region.

- |                                      |         |
|--------------------------------------|---------|
| • Standard Membership                | ¥23,000 |
| • Three-Year Term Membership         | ¥63,000 |
| • Corporate Counsel                  | ¥11,800 |
| • Young Lawyers (under 30 years old) | ¥6000   |

Annual dues cover the period of one calendar year starting from January 1 and ending on December 31. Those who join the Association before 31 August will be registered as a member for the current year. Those who join the Association after 1 September will be registered as a member for the rest of the current year and for the following year.

Membership renewals will be accepted until 31 March.

Selection of membership category is entirely up to each individual. If the membership category is not specified in the registration form, standard annual dues will be charged by the Secretariat.

There will be no refund of dues for cancellation of all membership categories during the effective term, nor will other persons be allowed to take over the membership for the remaining period.

## **Corporate Associate**

Any corporation may become a Corporate Associate of the IPBA by submitting an application form accompanied by payment of the annual subscription of (¥50,000) for the current year.

The name of the Corporate Associate shall be listed in the membership directory.

A Corporate Associate may designate one employee ('Associate Member'), who may take part in any Annual Conference, committee or other programmes with the same rights and privileges as a Member, except that the Associate Member has no voting rights at Annual or Special Meetings, and may not assume the position of Council Member or Chairperson of a Committee.

A Corporate Associate may have any number of its employees attend any activities of the Association at the member rates.

- |  |         |
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| • Annual Dues for Corporate Associates | ¥50,000 |
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## **Payment of Dues**

The following restrictions shall apply to payments. Your cooperation is appreciated in meeting the following conditions.

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See overleaf for membership  
registration form



# IPBA SECRETARIAT

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